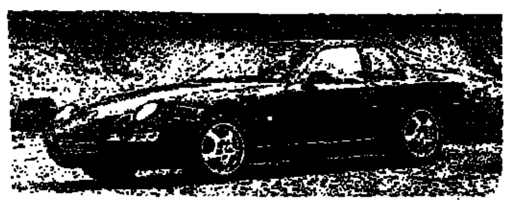
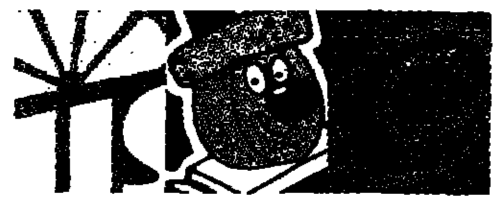


Faltering marque

Porsche's problems persist

Page 17



Confectionery wars

Picking over Europe's chocolate box

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ERM debacle

From hope to disillusion

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● *Personal computers* ● *Finland*

Section III Section IV

FT NEWSPAPER of THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper · WEDNESDAY SEPTEMBER 30 1992 · D8523A

IBM to double job losses this year to 40,000

International Business Machines, world's largest computer maker, announced that it would be making 40,000 staff redundant this year, double its original estimate.

The US group originally wanted to lose 20,000 jobs in 1992. But in late July it raised the figure to 32,000. The latest figure represents nearly 12 per cent of its worldwide workforce of 344,000.

Japan's output down again: Japanese industrial production last month was 7.6 per cent down on a year ago. It was the 11th successive month in which output fell, the longest series of falls since the mid-1970s. Page 5

Sears, Roebuck, world's second-largest retailer, said it would spin off or sell much of its financial services operation in a vast restructuring operation intended to reduce corporate debt. Debt could be cut from $38bn to about $16.5bn, say analysts. Page 17; Lex, Page 16

UK recession bites harder: More than 4,500 job losses were announced in the UK at the same time as new figures confirmed the number of company failures is about to break all records. Page 8; Lex, Page 16

Hostility to foreigners: More than a quarter of German youths hold racist views or are open to anti-foreigner propaganda, according to a survey by a Cologne institute. Page 4

UK may go solo over Eurofighter

The UK government gave the first indication it might go ahead to produce the troubled European Fighter Aircraft project on its own even if Germany, Spain and Italy quit the project. UK defence procurement minister Jonathan Aitken (left) said Britain would first have to study the cost implications. Page 16

Action to boost Canadian $: Domestic interest rates were raised in an attempt to halt a sharp fall in the Canadian dollar. The Bank of Canada lifted its overnight call rate by 3 percentage points to 7.75 per cent and then lowered it again below 6 per cent. Page 6

Paris hits back over steel levies: The French government, fearing the loss of FFr90m ($17.6m) of exports a year from state-owned steelmaker Usinor Sacilor, urged the European Community to consider retaliation against US levies on French, German and British steel. Page 4

Jefferson Smurfit, Ireland's largest industrial group, announced what it called "disappointing" results with half-year pre-tax profits to July 31 down from I£75.1m ($42.2m) to I£60m. Page 18; Lex, Page 16; People, Page 12

Niagara helicopter crash: Four people died in a mid-air collision between two helicopters sightseeing over Niagara Falls, Canada. One of the craft crashed killing its four occupants while the other managed to land safely at a car park.

US quits biggest overseas base: US personnel pull out today from Subic naval base in the Philippines, the largest American overseas military facility. Page 5

Inco, western world's largest nickel supplier, is talking to its trade unions about action to stem losses caused by low prices. The company dismissed market rumours that it might cut production for six months. Page 25

Collor's fate in the balance: Brazil awaited the outcome of a historic congressional vote on whether to authorise impeachment proceedings against President Fernando Collor. Page 6; Picture, Page 16

Hershey Foods, US chocolates producer, may counter-bid for Freia Marabou, Norwegian confectionery group which accepted a $1.5bn takeover offer from Philip Morris of the US. The bid has to be agreed by Freia Marabou shareholders. Page 17; Lex, Page 16

Porsche, troubled German luxury carmaker, is to cut its workforce by another 1,000 this year, in addition to 850 redundancies already announced. The company said the cuts were needed to preserve its independence. Page 17

Threat to Mozambique deal: Mozambican rebel leader Afonso Dhlakama refused to sign a peace settlement that was to have ended 16 years of civil war.

■ STOCK MARKET INDICES		
FT-SE 100:	2,585.5	(+6.5)
Yield	4.78	
FT-SE Eurotrack 100	1,008.98	(-6.42)
FT-A All-Share	1,210.98	(-0.0%)
FT-A World Index	148.86	(+0.0%)
Nikkei	17,748.09	(-224.52)
New York:		
Dow Jones Ind Ave	3,266.8	(-0.46)
S&P Composite	416.8	(+0.18)
■ US CLOSING RATES		
Federal Funds:	3⅛%	(3⅞%)
3-mo Treas Bills: Yld	2.777%	(2.817%)
Long Bond	98½	(98⅞)
Yield	7.361%	(7.337%)
■ LONDON MONEY		
3-mo Interbank	8½%	(9⅛%)
Liffe long gilt future	Dec 97½	(Sep 97½)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Nov)	$20.325	(20.4)
■ Gold		
New York Comex (Oct)	$348.2	(347.6)
London	$348.15	(same)

■ STERLING		
New York:		
$	1.7865	(1.7317)
London:		
$	1.7596	(1.73)
DM	2.52	(2.51)
FFr	8.52	(8.465)
SFr	2.2025	(2.2)
Y	211.75	(206.75)
£ Index	83.7	(82.6)
■ DOLLAR		
New York:		
DM	1.4125	(1.451)
FFr	4.7785	(4.8945)
SFr	1.2273	(1.2695)
Y	119.245	(119.58)
London:		
DM	1.424	(1.451)
FFr	4.815	(4.8925)
SFr	1.245	(1.271)
Y	119.65	(119.5)
$ Index	59.3	(60.8)
Tokyo close Y 119.65		

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft152	Malta	Lm0.50	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25	India	Rs30	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50		
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr8.50	Kuwait	Fils 600	Poland	Zl 18,000	Turkey	L6000		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00		

US seeks early resumption of Bosnian aid flights

By Frances Williams in Geneva, Laura Silber in Belgrade and Robert Mauthner in New York

THE US is considering a swift resumption of relief flights into Sarajevo, the capital of Bosnia-Hercegovina, where up to 400,000 people could die of starvation and exposure this winter, according to United Nations aid officials.

Six thousand tonnes of urgently needed food and other supplies had failed to reach Sarajevo since the flights were suspended four weeks ago, Mrs Sylvana Foa, spokeswoman for the UN High Commissioner for Refugees, said yesterday. "We are not anywhere near prepared for winter," she said. "It seems we will lose a lot of people. It really is too late probably for thousands and thousands of people."

An extra 6,000 UN troops needed to open new land routes into Bosnia had still not arrived, she said, and the agency was short of cash and trucks.

In Geneva yesterday, Mr Alija Izetbegovic, the Bosnian president, said after talks with Mr Cyrus Vance, UN mediator, that all sides in the conflict had agreed to demilitarisation of Sarajevo in principle.

He added that Mr Vance had expressed the hope that US flights could resume in 24 hours. However, US officials indicated a resumption of flights was likely to take place in the next few days rather than immediately. "The airlift, unfortunately, is interrupted today but it looks as if by the end of the week we may be able to resume," Mr Thomas Niles, assistant secretary of state, said in Washington. The airlift was suspended after the shooting down of an Italian aid aircraft nearly four weeks ago.

Mr Vance and Lord Owen, the EC mediator, have expressed their dismay at the failure of governments to resume the flights.

Intensified fighting and a stepping up of "ethnic cleansing" by Serb forces were continuing to drive people from their homes while reducing the places to which refugees could flee, Mrs Foa said.

Hundreds of thousands of people faced death from cold and hunger because there was nowhere for them to go.

Mr Vance and Lord Owen are due to have talks in Geneva today with Mr Douglas Hurd, the UK foreign secretary, on proposals to establish a "no-fly" zone in Bosnia aimed at halting Serbian air attacks on the Moslem population.

Mr Hurd is also due to meet Mr

Continued on Page 16

Kohl rejects any idea of 'two-speed' Europe

By Our Foreign Staff

MR HELMUT KOHL, the German chancellor, yesterday rejected the idea of a "two-speed" Europe and urged the UK to keep to the path of integration with the other 11 members of the Community.

Mr Kohl, who has strong domestic reasons for proceeding cautiously towards European economic and monetary union, said the Community should stick to the timetable of a single currency by 1999. A "two-speed" move would mean a small number of Community countries would achieve monetary union in a much shorter timescale.

He insisted that renegotiating the Maastricht treaty was out of the question, in spite of opposition to it in Denmark and the UK.

Public opinion in both Germany and France was also likely to be strongly sceptical about a two-speed move to European union, which would leave out key nations that both countries regarded as economic and political allies. "We want Britain to be with us, we want a Europe of 12, we don't want a two-speed Europe," he told a press conference in Luxembourg.

Mr Kohl's message to Britain is likely to be reinforced by the French government when Mr John Major, the British prime minister, visits Paris today.

In spite of the growing split in the ruling Conservative party over Britain's European policies, President François Mitterrand is expected to counsel Mr Major against anti-German rhetoric.

Mr Mitterrand will try to persuade Mr Major to put aside the quarrelling with Germany sparked by this month's currency turbulence. He will urge Mr Major to adhere to the plan to ratify the EC treaty this year. French officials said.

The attempt to persuade Britain to stick to the Maastricht process comes amid speculation that opposition to the treaty could prompt France and Germany to forge European Monetary Union (Emu) with a small "core" of other states.

Neither Paris nor Bonn, however, appears ready to press ahead with such a move.

Mr Kohl, who is under pressure from domestic critics who say that the intended new European currency might be less stable than the D-Mark, denied that his government wanted a slimmed down Emu. "There are many rumours . . . it's like the Loch Ness monster, it keeps reappearing," he said in Luxembourg.

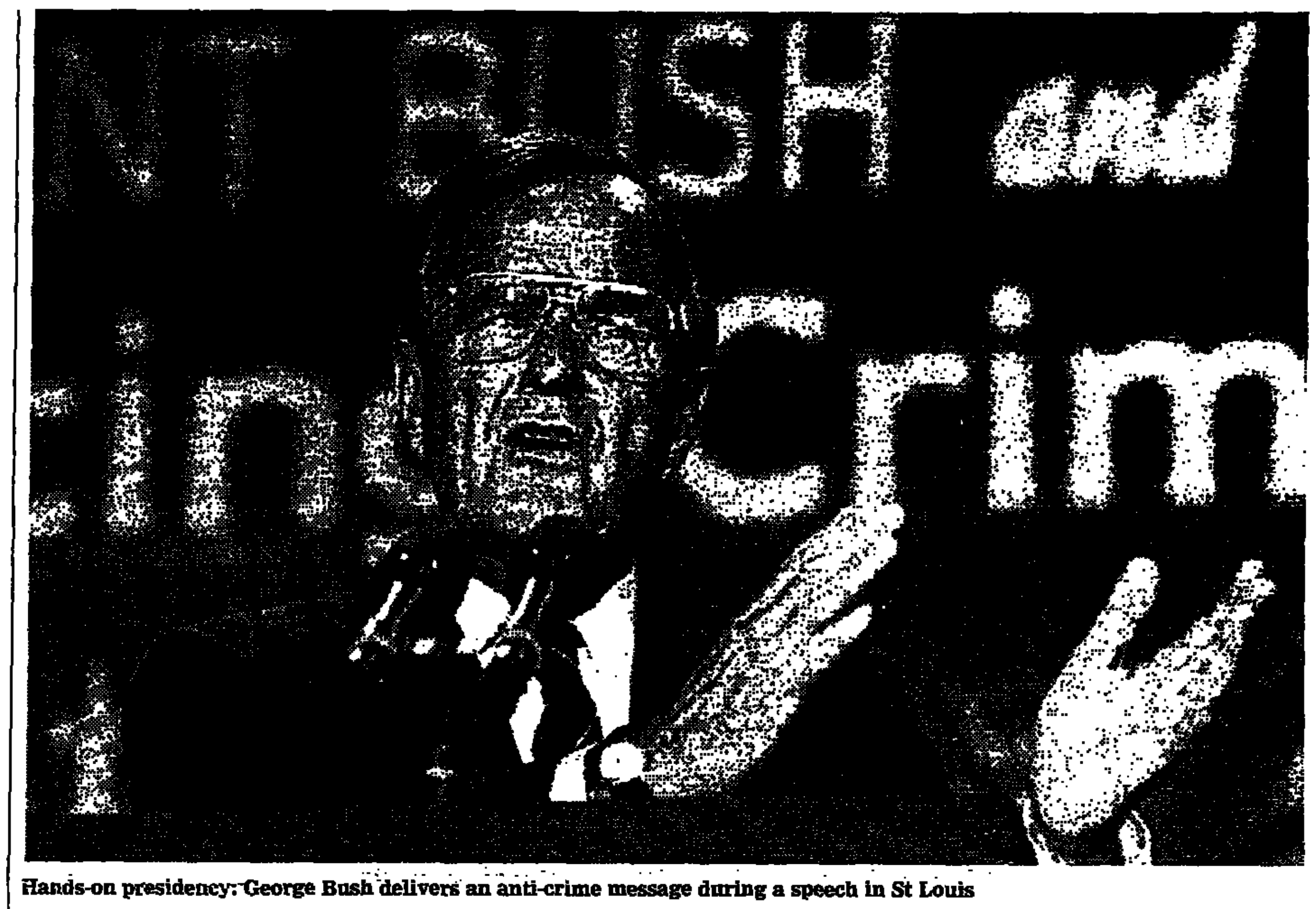
The chancellor's sentiments were backed up in London by Mr Hans-Peter Stihl, president of the German association of chambers of commerce and industry. He suggested that a delay in the Maastricht timetable was more likely than an overt move to a two-speed Europe.

Mr Stihl also called on Britain to remain on the Maastricht track. "If Britain reacts in the right way, and not just by being insulting [about Germany] then there is a good chance that it will remain on board," he said.

Mr Kohl said there was no reason to delay the start of negotiations with other European nations such as Austria and Sweden which have applied to join the 12-nation Community.

He added that it was wrong for people to fear the emergence of a European super-state or for them to blame the European Commission bureaucracy in Brussels for the problems of the EC.

German influence, Page 2
Warning from the Bank of England, Page 16



Hands-on presidency: George Bush delivers an anti-crime message during a speech in St Louis

US consumer confidence falls again

By Michael Prowse in Washington

US CONSUMER confidence fell again this month and is lower than on the eve of any of the last five presidential elections, figures released yesterday indicated.

The Conference Board, a New York business analysis group, said its index of consumer confidence fell 2.6 points this month to 56.4, throwing fresh doubt on President George Bush's re-election hopes.

In another gloomy report, the Commerce Department reported a 0.2 per cent decline last month in the index of leading indicators, its main gauge for forecasting economic turning points. This followed a fall of 0.3 per cent in June and a marginal gain of 0.1 per cent in July.

Yesterday's figures were the latest in a series of consistently weak economic reports that have put renewed pressure on the dollar. Gloomy reports last week included falls in new orders for durable goods, personal incomes and home sales.

Attention has shifted to September's employment report, due on Friday – the last before the election. Most analysts expect another sharp decline in employment, which would put additional pressure on the Bush campaign and increase the likelihood of another cut in interest rates.

Consumer confidence has fallen for three months running and is at its lowest level since March, when the economy was recovering from a second dip. Confidence has fallen 16 points since June and is running at about half the level expected during a healthy economic recovery.

Yesterday's survey revealed a further weakening in consumers' intentions to buy cars, houses and home appliances.

The proportion of respondents expecting business conditions to deteriorate and jobs to become more scarce rose relative to already weak figures in August. Only 6 per cent of 5,000 families surveyed said jobs were plentiful; 46 per cent said they were "hard to get".

Seven of the 11 components of the index of leading indicators fell last month, led by declining commodity prices, rising claims for state unemployment insurance and weaker order books in manufacturing.

BCCI accountants facing $8bn claim

By Robert Peston and Andrew Jack in London

PRICE Waterhouse and Ernst & Young, the leading accountancy firms, are to be sued for an estimated $8bn for alleged negligence in their audit of Bank of Credit and Commerce International.

BCCI's liquidators, led by Mr Brian Smouha, of the accounting firm Touche Ross, are close to serving their statement of claim in their case against PW and Ernst & Young. The claim relates to writs against the two accounting firms issued in the UK high court in March.

The writs allege negligence, breach of duty and breach of contract relating to BCCI audits for 1985 and 1986. The damages claim, thought to be a record for the UK, is based on losses suffered by BCCI since 1986.

Ernst & Young and PW will contest the actions.

After serving the statement of claim on the two firms, the liquidators are not obliged to make the details public. They have not decided whether to disclose the huge sum claimed, pending the commencement of a trial.

Until 1987, PW and Ernst & Young acted as auditors to the BCCI group of companies. Afterwards, PW took sole responsibility for auditing the businesses.

BCCI was closed down by the Bank of England in July 1991 after it discovered evidence of a huge fraud in the bank.

Accountants have been facing a growing number of ever larger legal claims in recent years in connection with their role as auditors to collapsed companies.

As a result, the accountants have found it increasingly expensive to insure against such legal action.

Allianz can keep stake in Dresdner

By David Waller in Frankfurt

GERMANY'S cartel authorities yesterday ruled that Allianz, Europe's largest insurance group, does not have to scale back its 22.3 per cent stake in Dresdner Bank, Germany's second largest bank.

The move reflects increasing competitive pressures in the German insurance market.

The original decision to reduce the holding was seen by many observers as a declaration of war on two of Germany's most powerful institutions as they planned increased business co-operation.

However, the Berlin-based Bundeskartellamt, the German federal cartel office, said yesterday that the competitive landscape had changed since March

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Lamont's stock tumbles after heady political ride

Peter Norman explains how the UK Chancellor ran into German and British flak when trying to play the two audiences simultaneously

"LAMONTS" used to be a rather dull little stock with a limited political future. They have suddenly emerged as the most volatile issue on the City and Westminster gossip exchanges.

Two weeks ago, as the pound was forced out of the European exchange rate mechanism, Mr Norman Lamont's future looked bleak indeed. The chancellor appeared unlikely to survive the sterling crisis.

Seven days later, by contrast, he seemed on top of the world. With one percentage point cut in interest rates under his belt and growing support from the Eurosceptic wing of the Tory party, he was the popular advocate of a "British policy in British interests".

Yesterday Mr Lamont's fortunes took another tumble. Remarks by the chancellor at the end of Monday's meeting of European Community economics and finance ministers in Brussels were widely construed as an apology to Germany for earlier remarks criticising the Bundesbank's role in the sterling crisis.

He awoke yesterday morning to find the Daily Telegraph - the one newspaper he takes more seriously than any other – urging his resignation and the early editions of yesterday's Evening Standard reporting fury in the Conservative ranks after the "humiliation" of his words of regret to Germany.

Not for the first time in the past three weeks, observers of UK economic policy making were left shaking their heads and asking what is really going on.

Mr Lamont's latest discomfiture is a salutary tale on several levels. It shows how UK domestic party politics do not travel in the European Community and how Britain, for all its pro-European rhetoric before Black Wednesday, stands apart from all its other EC partners in harbouring serious doubts about the utility of the European Monetary System in its present form.

Mr Lamont's latest stumble highlights the problems of playing simultaneously to two audiences. Relations between the UK Treasury and the Bundesbank have been poor since the beginning of September when Mr Lamont tried and failed to force a cut in German interest rates at the informal meeting of economics and finance ministers in Bath.

The Treasury is also firm in its belief that its efforts to prop up the pound on black Wednesday were fatally undermined by Bundesbank indiscretions. This sense of anger was not assuaged by the very substantial support given by the German central bank to the French franc last week: support that had not been available on such a scale for sterling on September 16.

Mr Lamont's obvious irritation with the Bundesbank and his apparent determination not to return quickly to the ERM made him the new hero of the Euro sceptic wing of the Conservative Party. This contributed to the strong support he was given last Thursday when he successfully defended himself in the commons debate on the economy. In his speech, the chancellor once again pinned the blame for sterling's fall on the Bundesbank.

During the previous week, however, he had also been trying to mend fences with Germany. This was apparent in Washington during the weekend after sterling's float where he attended meetings with Mr Helmut Schlesinger, the Bundesbank president, and Mr Theo Waigel, the German finance minister. At that time, UK officials insisted that both sides wanted to put the bad blood behind them. But it seemed that every dose of soothing words on the international stage from Mr Lamont was matched by some criticism of German policy, designed for the UK audience.

In Brussels, Mr Lamont's approach of policy of tailoring his remarks to his audience caught up with him. His statement at a press conference that "I am sorry if anything has been said that greatly upsets them" was widely construed as a personal apology to Germany and therefore as a humiliating climbdown. His subsequent clarification that he was refering only to comments in the press for which he has no responsibility has put back the controversy to square one.

But the events of the past days have done more than that. The Brussels meeting, when the other 11 EC nations rallied behind the ERM, showed that in a beauty contest between the UK government and the Bundesbank, Britain's erstwhile ERM partners will opt for the Bundesbank every time.

This week's meeting of EC ministers also exposed Britain's lack of concrete suggestions for reforming the ERM, despite the lapse of several days since the prime minister and chancellor first detected "fault lines" in the system.

Britain is still without a clear plan on how to approach the ERM question at the Birmingham summit of EC leaders on October 16. It became clear yesterday that the Treasury has neither broad proposals for a significant change in the system nor specific ideas for detailed technical changes.

In normal circumstances, such an absence of initiatives could be bearish for Mr Lamont's stock. But the chancellor can probably rest easy for the time being. The UK parliament is not due to reconvene until October 19. Before then he will have an opportunity to restore his reputation at next week's Conservative Party Conference It remains to be seen how he will negotiate the high wire between his Eurosceptic supporters at home and his increasingly frustrated colleagues among the EC's finance ministers.

Britain looks for help from French

By Alison Smith in London and David Buchan in Paris

MR JOHN MAJOR'S 90-minute meeting at the Elysée Palace this afternoon could determine the success of the emergency European Community summit in Birmingham next month.

The UK prime minister's discussion with President François Mitterrand is, one insider said, "designed to enable him to start trying to shape the consensus".

"It's about squaring the circle" was the perhaps more realistic phrase of another.

Downing Street emphasised yesterday that Mr Major has a good relationship with Chancellor Helmut Kohl, whatever the view about briefings from officials of the Bundesbank, and said that the two often spoke on the telephone.

With the prospect of a face-to-face meeting between the two leaders before the mid-October summit looking remote, however, France is increasingly significant as a possible ally on the way forward on the dispute over the exchange rate mechanism and on Maastricht.

Mr Mitterrand will urge Mr Major to reduce recent Anglo-German tensions. He will also back the UK leader's plan to inject more democracy into the Maastricht process in an attempt to get Britain to ratify the EC treaty this year, say French officials.

France recognises Mr Major's internal political problems in pushing treaty ratification, but believes the January 1, 1993, target date for the treaty to enter into force can be met.

In the short term, France is worried about the possibility of the UK government taking irreversible steps away from the Maastricht treaty, following sterling's departure from the parity grid of the European Monetary System and consequent British bitterness at lack of Bundesbank support.

For their part UK Foreign Office officials say that while the close result of the French referendum has some side benefits for the UK's agenda, such as its reinforcement of the importance of retaining each country's national identity, other aspects could add to Britain's difficulties.

Though some of the damage to Anglo-German relations may have been undone at this week's EC finance ministers meeting, Mr Mitterrand is still expected to counsel Mr Major not to let himself, or his cabinet colleagues, give vent to anti-German rhetoric.

French officials say they realise, from the way relations with Germany figured large in the stormy French referendum debate on Maastricht, that such rhetoric can prove popular. But they warn that Britain needs co-operation with Germany if it is to bring the pound back into the ERM.

Tony Andrews

Looking for a way out of the crisis: Mr John Major and President François Mitterrand meet today in Paris

British run the risk of being left out of the game

Major has little time to conjure modest victory out of defeats

By Lionel Barber in Brussels

THE British presidency of the European Community has reached a turning point. The next three weeks are likely to show whether a modest political victory can be wrested from the string of humiliating defeats, or whether Mr John Major's pledge to move Britain to "the heart of Europe" will prove no more than a cute Foreign Office slogan.

Time is running out. This week's meeting of European finance ministers in Brussels underlined Britain's near-isolation in the EC, with ministers giving short shrift to Mr Major's demands for a reform of the European exchange rate mechanism (ERM), and demanding that all EC members proceed at the earliest date possible with ratification of the Maastricht treaty on European monetary and political union.

Worse still, the British prime minister's European policy is foundering amid mutual recrimination in the Anglo-German relationship and a residue of suspicion in virtually all EC countries about the British and their attitudes to the Community. Repairing the damage before next month's emergency EC summit in Birmingham to discuss Maastricht will require a huge effort by Mr Major and his cabinet colleagues.

When Mr Major succeeded Mrs Thatcher, the *bête-noire* of Brussels, two years ago, he inherited a good deal of goodwill. With his early efforts to forge a closer relationship with Chancellor Helmut Kohl, Mr Major appeared to be the first British prime minister since Mr Edward Heath to be willing to lead his country to play a full role in the development of the EC.

The political and monetary crisis of the past three months has revealed just how exaggerated the hopes were of a new relationship between Britain and the Community.

Repairing the damage before next month's summit will require a huge effort by the UK prime minister and his colleagues

"We thought we were moving forward with Mr Major, now it looks as if we may not even be able to stand still," said a senior EC official. "We may even be moving backwards."

The most important force propelling the current crisis was last June's referendum in Denmark which led to narrow rejection of the Maastricht treaty.

Not only did it unleash the current political uncertainty in Europe about Maastricht; it also gave fresh impetus to anti-European voices in Britain, both in the Conservative and Labour parties.

In retrospect, says a senior German official, all EC members misread the impact of the Danish referendum. "What we thought was the Danish problem in fact turned out to be the "British problem". Or as another EC official put it yesterday: "Even if we solve the Danish problem, we cannot be sure we can solve the British - and that may be one problem too many for the Community."

Brussels officials believe Mr Major's decision to withdraw from the ERM was a serious blow to his European policy, but it was not fatal. Indeed, they argue that the real damage has come from misjudgments and tactical errors before and after sterling's withdrawal from the ERM.

The first mistake, they believe, came with the British presidency's campaign to open speedy negotiations to enlarge the EC to admit Sweden, Austria and Finland, before ratification of the Maastricht treaty and before final approval of the Delors II spending package providing extra financial aid to the poorer southern states such as Italy, Spain and Portugal. However honourable the motives, Mr Major's push looked like a replay of Mrs Thatcher's efforts to limit the EC to a free trade area.

The sterling crisis magnified British misjudgments. First, Britain declined to raise interest rates despite increasing evidence this was the only way to avoid a devaluation of sterling; then it refused to join in a general realignment in return for a cut in German interest rates; finally, it announced a withdrawal, accompanied by accusations of betrayal against the Bundesbank and calls for reform of the ERM.

Downing Street's attack against the ERM has ballooned, at least in the eyes of Brussels diplomats, into a broader assault on the integrity of the European Monetary System. The resulting damage in relations with the other 11 members is hard to underestimate. As the joint communiqué signed on Monday night suggested, the EMS is viewed as the *sina qua non* of monetary stability in Europe.

This explains, in part, why there has been so much loose talk in the past fortnight of a two-speed Europe, an early push by France and Germany to monetary union. Doubtless contingency plans exist in Paris and Bonn; but the wider message is that if anyone, particularly perfidious Albion, should seek to dismantle the Maastricht process, they risk being left out of the game.

What can Britain do? Brussels officials say final judgment on the British presidency will depend on three factors. First, how far it allows domestic political considerations to influence its views on Denmark's pleas for special treatment post-Maastricht; second, its willingness to listen – rather than dictate – on the EMS; third, whether it manages to broker a compromise on the Delors II package.

Beyond these issues, there remains the question of ratification of Maastricht before the British parliament. Mr Lamont said on Monday night the Conservative government was "honour bound" to present the treaty for a vote. In Brussels, the view is that Mr Major must deliver – or be damned.

UK bank chief aims for pound target

By Peter Marsh, Economics Staff

BRITAIN may need to institute some measure of targeting for the pound, even while the currency is outside the European exchange rate mechanism, Mr Robin Leigh-Pemberton, governor of the Bank of England, hinted yesterday.

Speaking in London, he also warned that countries such as the UK with large budget deficits would have little room to speed growth through looser fiscal policies.

He indicated that much of the world was looking to Germany to cut interest rates in the coming months as a way of helping international recovery.

Mr Leigh-Pemberton said that while Britain no longer needed to keep the pound within set limits of other European currencies, it remained dependent on the economies of other developed nations.

The pound's suspension from the ERM "does not mean that the exchange rate does not have a profound impact on [Britain's] economic fortunes". As a result, the continuing need to bear down on inflation meant the UK "cannot afford to ignore" the sterling's level against important currencies.

However, Mr Leigh-Pemberton gave no details about what, if any, form of targeting of the exchange rate the bank would like to see Britain adopt. His speech was seen as repeating the broad line set by Mr Norman Lamont, the chancellor, that the UK would continue to monitor sterling.

With much of the world in economic slowdown, there were many demands for a fiscal loosening in specific countries to bolster demand.

But in many nations the "room for manoeuvre is limited" because of large public sector borrowing requirements built up during economic expansion in the 1980s.

The governor warned: "Those countries with severe deficits need to pursue budgetary consolidation vigorously." That passage was taken as having specific reference to Britain which is likely this financial year to have a PSBR of more than £30bn, or roughly 5 per cent of gross domestic product.

Mr Leigh-Pemberton also indicated that a cut in German interest rates would help the prospects of world growth. He said: "[Monetary] relaxation by countries with strong currencies and a satisfactory prices performance, such as Germany, is most likely to have positive international spillover effects."

German warns on German influence

By David Marsh, European Editor

COUNTRIES which slow progress towards European monetary union risk strengthening Germany's economic domination across the continent, according to Mr Hans-Peter Stihl, president of the German association of chambers of commerce and industry.

Mr Stihl, who has emerged as an influential spokesman for German business in the debate over future European integration, labelled as "short-sighted" countries such as Denmark and the UK showing opposition to the treaty.

If the Maastricht treaty were not ratified, this would establish the D-Mark more quickly as the "main currency in Europe", since the move to a single currency with a European central bank would break down, Mr Stihl said.

"This would mean the domination of the German economy in Europe," he said.

The Maastricht treaty might have to be implemented initially by a smaller group of EC states, he said. If monetary union went ahead with only a limited number of countries, this would have the effect of "exerting pressure on other countries in Europe to maintain [economic] stability".

However, there were strong political arguments against too overt a move towards "two-speed" Europe. The EC would try to ensure as many countries as possible took part in the final stage of monetary union. The most likely outcome was that the Maastricht process would continue, but more slowly than envisaged.

Amato tries to calm nerves on bank deposits

ITALY'S prime minister, Mr Giuliano Amato, yesterday sought to stop what he said was an irrational rush to withdraw cash from banks, by assuring the public that the government was not planning to touch their money.

Bankers said there had been a trend among clients to sell ... investment portfolios and ...raw cash, apparently ... rumours the govern... ...lanning to freeze 30 ...bank deposits. "It is ...it it is notice... ...director of one

How central banks ran into the hedge

James Blitz on the logic of a currency market biased to safety

THE Bundesbank and the Bank of France may have won the battle to save the French franc. But the world's central banks are losing a war to preserve their influence over how the foreign exchange market trades their currencies.

Since the middle of the 1980s, the central banks have had some success in checking fluctuations in exchange rates when they threatened to become extreme. After 1985, for example, the central banks successfully intervened in the market to depress the value of the dollar, by concertedly buying other currencies.

Ten years ago, currency markets were dominated by commercial bank dealers taking short-term positions. Now, managers of pension, insurance and investment funds – the institutional investors – are playing the market aggressively. And they are taking longer-term positions, backed by currency portfolios that match the banks' holdings for size.

"There is an increasing emphasis on the foreign exchange aspect of fund managers' decisions," says Mr Paul Chertkow, head of global currency research at UBS Phillips and Drew in London. "Their aggressive approach and their particular way of playing the market partly accounts for the recent runs on sterling and the Italian lira."

During the 1980s fund managers increasingly internationalised their asset holdings as capital controls were reduced. The average UK pension fund, for example, now has 20 per cent of its portfolio invested overseas, compared with 6 per cent in 1980.

However, the underlying value of a fund's overseas holding of bonds and equities is affected by fluctuations in the denominated currency. So, fund managers are increasingly "hedging" – or protecting – themselves against currency risk by buying and selling the denominated currency on forward foreign exchange markets.

Hedging by investment funds is now the fastest-growing business in foreign exchange. The Bank of England reported last week that the proportion of interbank business in the London foreign exchange market, the largest in the world, had declined by 9 per cent since 1989, while the proportion involving other financial institutions, such as investment funds, had increased.

The share of forward foreign exchange business in London has increased by 12 per cent over the same period, while immediate (or spot) foreign exchange trading has declined by 14 per cent.

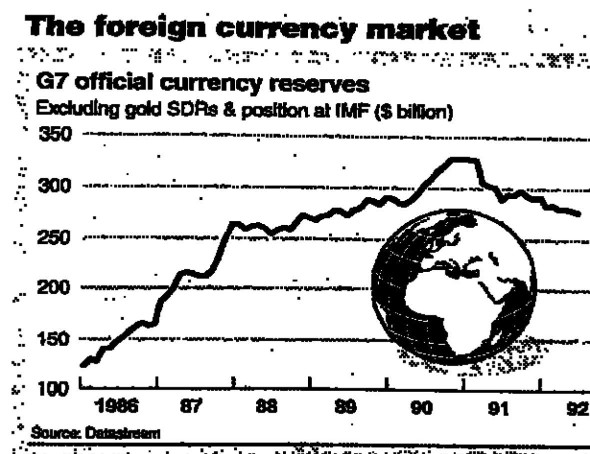
These developments concern governments and central banks for several reasons:

● The scale of currency hedging is producing investment flows that rival central bank reserves.

The International Monetary Fund reported in June that the Group of Seven leading industrial countries had total foreign exchange reserves of \$350bn. A leading investment fund manager in London said this week that his bank had \$25bn of assets which were regularly hedged on currency markets.

"On a very busy day, our active flows would be in the order of \$1.5bn to \$3bn," he said. "There are 10 other banks in London which could move the same sums. You can therefore see how the central banks could have encountered an avalanche of money in the opposite direction in recent weeks."

The foreign currency market



Source: Datastream

Daily turnover in three main centres

	March 1986 $bn	April 1989 $bn	April 1992 $bn
London	90	187	303
New York	50	129	192
Tokyo	48	115	128
TOTAL	188	431	623

● Unlike bank dealers, fund managers take long-term decisions which are far more difficult for the central banks to reverse.

The bank dealers who have become familiar on TV screens make short-term currency plays. They sell a currency, watch it depreciate, buy it back again and make a profit. This short-term view makes them easily influenced by a central bank raising overnight interest rates or buying a currency to trigger moves in the exchange rate.

Fund managers, however, are more interested in managing risk rather than making short-term gains. As interbank dealers continued to test sterling two weeks ago, the fund managers came into the market and sold the currency on a long-term basis.

"It is much harder for intervention to reverse that kind of decision," says Mr Chertkow.

● The growing use of hedging instruments such as options and forward contracts reinforces the prevailing currency flows.

The trade in these sophisticated "derivative" products has grown because they allow fund managers to safeguard long-term currency positions. A fund manager pays a small premium to a bank which, in turn, guarantees to buy or sell a nominated currency in the event that it touches a lower rate.

Several weeks ago, a fund manager might have feared that sterling would be devalued below its lower ERM rate of DM2.7780. He might have bought a "put" option from a bank , giving him the right to sell sterling to the bank at a price of DM2.70 if he wished to exercise it.

As sterling started to edge towards the "exercise price", the bank which had sold the option would have started to fear that it would end up acquiring a depreciating currency.

"The bank would itself have had to start selling into the market to avoid recording a loss once the 'strike price' was reached," says Mr Mark Austin, chief economist at Hong Kong and Shanghai Banking Corp in London.

"That example, repeated a hundred times over, explains what happened to sterling on 'Black Wednesday'."

It would be wrong to exaggerate the role of these institutional investors in any explanation of the recent sell-off of weaker ERM currencies.

Analysts stress that the interbank market was in a uniquely "pathological" state after the central banks spent huge sums to prop up the lira.

The German and French central banks have also shown that a concerted intervention can still turn the market, even if it is anticipating that a currency might be devalued.

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Defence minister wants Paris to abandon 'empty chair' policy

Joxe urges bigger French role in Nato

By David Buchan in Paris and David White in London

FRANCE should abandon the "empty chair" policy it has long practised at Nato military meetings, Mr Pierre Joxe, the French defence minister, suggested yesterday.

This is the first time a French defence minister has said in public that he would like to attend Nato ministerial meetings in the way that France's foreign minister has always done.

Mr Joxe's comments came as Nato prepared to launch its new rapid reaction force, in which France will not participate, in Germany on Friday.

It is expected to have about 250,000 troops available to it, two to three times the number envisaged when plans were first drawn up last year. But there is continuing discussion about the role it might play, if any, in conflicts outside the boundaries of the member countries of Nato.

Mr Joxe told a European defence seminar that he hoped "France in the future could participate more than it has in the past in politico-military discussions" in Nato.

But for this to happen, Nato would have to undergo "real change", and there was no chance of France again placing its forces under what Mr Joxe described as the alliance's outmoded integrated military command.

He cited with approval the example of Spain, which stayed outside Nato's integrated peace-time command when it joined the alliance in the late 1970s, although its defence minister usually sits in on meetings of Nato's defence planning committee and nuclear planning group. The fact that Mr Joxe cleared yesterday's speech with the Elysée indicates he is having some success in shifting President François Mitterrand in a more pro-atlanticist direction.

France's decision to take part in working out Nato's new "strategic concept" last autumn was a step towards greater military involvement in Nato, Mr Joxe noted yesterday. When, shortly after that review, Nato inaugurated its "Co-operation Council" with eastern Europe last December, Mr Joxe expressed frustration at being virtually the only defence chief in Europe – east and west – not to attend.

At the same time, Mr Joxe took up the hint, dropped by Mr Mitterrand last year, that France might be ready to enter discussions with its European partners on future nuclear strategy. This could involve "a widening of the nuclear guarantee," he said.

On conventional forces, the French defence minister said the planned "Euro-corps", to be composed of 35,000 French and German troops by 1995, was "an opportunity and not a threat" to other countries and to Nato.

Speaking at the same seminar, Mr Volker Rühe, the German defence minister, said arrangements putting the planned Euro-corps under Nato command in time of emergency should be settled by December.

Nato officials said yesterday that the Allied Command Europe Rapid Reaction Force (ARRC), still in embryonic form, involves 12 Nato countries and will be able to draw on up to 10 divisions. However, no more than four divisions – a force of between 60,000 and 90,000 men – would actually be deployed in response to a crisis.

The French defence minister, Mr Pierre Joxe (left), and France's armed forces chief-of-staff, Admiral Jacques Lanxade, at a strategy conference in Paris yesterday

Under the first blueprint approved by defence ministers in April last year the corps, under British command, was to consist of two UK divisions, a multinational airmobile division and another division for southern Europe. The US made clear at that time its willingness to add a US-based heavy division.

Forces assigned to the ARRC are now expected to include a German division, an Italian division with Portuguese participation, and separate Greek and Turkish divisions. Spain, while not formally part of Nato's military structure, is also making a division available.

Nato officials emphasised that final details had not been settled.

One allied officer said Greece and Turkey had engaged in "competitive poker" over their contributions, and it was still uncertain what these would entail.

Greeks and Turks are also due to join Italian forces in a combined Multinational Division South.

This is one of two divisions which will be under permanent Nato command in peacetime. The other, the airmobile Multinational Division Central, comprises British, German, Dutch and Belgian troops.

All the forces are due to be operational in 1995.

Survey claims 20m in CIS want to emigrate

By Ronald van de Krol in Rotterdam

AS MANY as 20m people in the three main republics of the former Soviet Union have contemplated emigration, with the US, Sweden and Germany cited as the most popular places for starting a new life in the west, according to a survey published yesterday by Russian and Dutch academics.

The survey found that 8 per cent of Russians, 11 per cent of Ukrainians and 19 per cent of Kazakhs described themselves as "frequently" or "permanently" thinking about emigration.

Although 11 per cent of respondents said the US was their first choice, researchers found that Russians, Ukrainians and Kazakhs did not tend to focus on just one or two countries as potential new homes.

"Given this even distribution, it would be conceivable for western countries to indulge in a more liberal immigration policy, provided that nearly all countries took such a stance simultaneously," a report on the survey said.

The survey, which claims to be one of the most detailed accounts ever compiled of the mental, physical and material needs of people in the Commonwealth of Independent States, was conducted on the eve of the Soviet Union's collapse in November and December 1991.

The questionnaire was devised by professors at Erasmus University in Rotterdam and put to 9,000 households in Russia, Ukraine and Kazakhstan by Dr Yuri Levada, a Russian sociologist, and the Russian Centre for Study of Public Opinion on Social Economic Subjects.

Preferred Destinations For Immigration

Country	%
USA	11.0
Sweden	7.9
Germany	5.8
Canada	5.4
France	4.5
Australia	4.4
Italy	2.0
Austria	1.5
UK	1.3
Israel	0.8
Other	5.0
Difficult to answer	50.4

Despite the upheavals since late 1991, researchers say most of the survey's data is still valid, although responses to questions about politics should be regarded with caution. Prof Stanislav Menshikov, a visiting professor at Erasmus, said yesterday that the mood in the former Soviet Union was now "probably worse than a year ago".

The former Soviet Union emerges from the "Erasmus Survey 1991" as a region beset by intense worry about job security, lagging purchasing power, crime and poor, overcrowded housing.

Multi-generation households of grandparents, parents and children are still common.

At the same time, one in five households still consists of two nuclear families.

"If we assume that in all two-family households the families would prefer to live independently, if possible, this would suggest a 20 per cent housing shortage," the report said.

More than 95 per cent of households in the survey area have refrigerators and television sets, while slightly more than 82 per cent owned a washing machine, though the report points out "a Russian washing machine is not the comfortable, luxurious apparatus known in the west." Car ownership, at 21.2 per cent, is higher than most people in the west expect.

One intriguing aspect of the survey is the direct comparison between attitudes in the former Soviet Union and the Netherlands.

Despite the high standards of the Dutch health care system, the Dutch tend to have relatively more complaints about their physical health than Russians, who lead harder lives.

However, researchers found "very shocking" and "dramatic" disparities in mental health, even after allowing for differences in the Russian and Dutch characters.

Nearly 15 per cent of Russian respondents said that they had occasionally or frequently contemplated suicide, compared with 3.5 per cent of Dutch respondents.

Only 33 per cent of Russians said they were in a good mood, compared with 90 per cent of the Dutch.

■ Russia will drop one of the last obstacles to foreign travel, the exit visa, on January 1, according to the foreign ministry, AP reports from Moscow.

Although restrictions have eased, Mr Vasily Vinogradov, head of the Russian foreign ministry's consular section, was quoted by the Nezavisimaya Gazeta yesterday as saying the exit visas would be dropped when a law on travel and emigration came into force on January 1.

This was likely to lead to a stampede for passports.

Brussels may force open markets

Brittan warning to energy sector

By Andrew Hill in Brussels

THE European Commission will not fight shy of using special powers to open up EC energy markets to greater competition, Sir Leon Brittan, the EC competition commissioner, warned yesterday.

Sir Leon's comments were the first formal indication since the close result in the French referendum on Maastricht that Brussels will continue to challenge public monopolies, despite sensitivity about how such attempts might be interpreted by national governments.

The Commission's controversial plans to liberalise energy markets are based on a gradual approach, with the eventual aim of giving users the ability to buy gas and electricity from anywhere in the EC.

Proposals to push through directives without the approval of member states – using special powers under the EC treaty – were shelved last year, and even the watered down proposals have met strong opposition from energy producers.

But Sir Leon told a Forum Europe symposium on energy liberalisation yesterday: "This does not exclude the possibility of resorting to the Commission's direct powers under the treaty (of Rome) if there is no progress.

"We want to go forward and are prepared to use those powers if it proves necessary."

Brussels commissioners could face a more immediate test of their mettle today, when they are due to debate the long-awaited policy paper on liberalisation of the telecommunications sector.

Publication of the paper – which proposes to open up cross-border telephone calls to competition – was delayed in July because of political sensitivity about the measures, particularly in France.

EC officials said that the paper might still be withdrawn from today's agenda.

Alternatively, it could be discussed, but not published.

"I tend to feel they [the commissioners] won't want to push it to a vote," said one Commission official.

Commissioners will decide today whether to allow Du Pont of the US and Imperial Chemical Industries of the UK to swap chemical assets, or whether to impose strict conditions on the deal, as recommended by Sir Leon Brittan, competition commissioner, writes Andrew Hill.

The deal would involve ICI swapping its nylon interests for Du Pont's acrylic business and £250m in cash. Under the plan proposed by Sir Leon, Du Pont would have to give up 12,000 tonnes of its annual capacity in nylon carpet fibre to a competitor. This third party would "share" a Du Pont factory, as well as related research and development facilities and staff.

Italy's big parties lose ground in local polls

By Robert Graham in Rome

THE accelerating erosion of electoral support for Italy's traditional political parties has been highlighted by local election results in northern Italy.

The elections on Sunday, of which the most important were in the city of Mantua and the surrounding region, were a triumph for the populist Lombard League, headed by Mr Umberto Bossi.

The League obtained almost 34 per cent of the vote, an increase of 11 percentage points since the April general elections. Against this both the Christian Democrats and Socialists saw their vote drop by over one third. The vote for these two latter parties, plus the Social Democrats and Liberals making up the current coalition government, could muster only 23 per cent.

The size of the protest vote was even larger than the swing to the League. Mr Bossi's sister, as a result of a quarrel with her brother, formed her own Alpine League which picked up nearly 7 per cent of the vote in the group's first appearence at the polls.

This was the first poll since April and Mantua represented a good cross section of the northern Italian electorate. The ever increasing vote for the League comes despite an erratic parliamentary performance.

The results will serve as an important reminder to the political establishment that any move to bring down the present government and call early general elections would see them suffer a devastating loss of votes. In the short term this should work to the benefit of the coalition government.

The vote was also significant because Mr Claudio Martelli, the Socialist justice minister, came from the city and had attempted to forge a new alliance of the left with dissident elements of his own party, the former communists of the Party of the Democratic Left and the Social Democrats.

IMF concern over reform in Russia

RUSSIA'S economic reforms are seriously at risk and inflation could reach "dangerous levels by the end of the year", a senior official of the International Monetary Fund told Russian deputies yesterday, writes John Lloyd in Moscow.

Mr Hernando Cota, deputy head of the bank's European division, said that while the IMF supported the policy and many of the actions of the government, "in recent weeks we feel seriously concerned that both budgetary and credit policies are going off track".

Mr Konstantin Kagalovsky, in charge of relations with the international financial institutions and permanent representative to the IMF, said that the key imperative was to bring the countries within the rouble zone under control.

■ The Russian administration is to be overhauled soon, according to the news agency Itar Tass. Almost 100 committees would be axed, together with six ministries, including the ministry of industry.

Ireland moves on divorce vote

THE Irish government yesterday published its much-awaited White Paper on divorce, which proposes a referendum to reverse the country's constitutional ban, writes Tim Coone in Dublin.

A referendum in 1986 was defeated by a margin of 63.5 per cent to 36.5 per cent. The Catholic Church remains adamantly opposed to divorce and is likely to campaign again against the proposed change. No date has been set for the referendum. However, it is unlikely to be held before the end of 1993.

EC offer averts trade war with US

By Frances Williams in Geneva and Nancy Dunne in Washington

THE US and the EC were hauled back from the brink of trade war last night following an 11th-hour EC proposal of compromise on a long-standing dispute over trade in oilseeds.

The EC move in Gatt's governing council came after it formally rejected a US demand for binding arbitration by an independent Gatt panel on trade damages caused by its oilseed subsidies.

The compromise offer occurred as the US administration came under fierce pressure from Senate Republicans to move fast and firmly in imposing retaliatory tariffs on EC food and drink imports – for what it claims is $1bn in losses suffered by US oilseeds producers because of market barriers in the EC. The EC has offered compensation of less than $400m.

Two Gatt panels have ruled in favour of the US in the dispute, which has dragged on since 1987.

The oilseeds dispute, together with a tit-for-tat escalation of wheat dumping, threaten to derail efforts to conclude the Uruguay Round of talks on world trade liberalisation, and plunge the US, the EC and their trading partners into trade war.

The last-minute compromise proposal by Mr Tran van Thinh, EC ambassador to Gatt, which will be discussed in more detail by the Gatt council today, combines elements of the independent panel called for by the US with elements of a Gatt working party favoured by the EC. A small group, excluding the US, EC and other interested parties, would be established under Gatt to consider EC compensation for losses to oilseed traders within a fixed time period.

As trade negotiators haggled at the Gatt council in Geneva, Mrs Carla Hills, the US trade representative, and Mr Julius Katz, her deputy, were called to a meeting with Republican senators in the office of Senator Robert Dole, the minority leader.

The senators stressed the concern they had found among farm state voters about the administration's failure to make headway in its long running oilseeds dispute. An observer at the meeting said the trade officials expressed concern about the damage to be inflicted on US business from EC counter-retaliation, but that senators were adamant that the oilseeds dispute be made "a litmus test" of the Gatt's ability to resolve trade disputes.

Any final decision to move ahead with US retaliation must be made by the Bush cabinet and the president himself. The opportunity for such a meeting is not expected until next week.

Earlier in the day in Geneva, both the US and the EC drew fierce criticism from trading partners over escalating subsidies for wheat exports.

Mr David Hawes, Australia's ambassador to Gatt, said US and EC export subsidies had "effectively created a two-tier world market where more than half the wheat traded was sold at predatory, subsidy-discounted prices".

Belgium fends off coalition collapse

By Andrew Hill in Brussels

BELGIUM'S centre-left coalition yesterday fended off collapse with a compromise on 1993 budget amendments and constitutional reform.

The six-month-old government of Mr Jean-Luc Dehaene now has to find an ally to get the reforms through parliament. Constitutional changes require a two-thirds parliamentary majority, which the coalition – made up of socialists and Christian Democrats from Flemish and French-speaking communities – does not possess.

The leaders of the four colaition parties agreed to cuts of BFr21.8bn ($728m), including a BFr5.2bn cut in social security, to make up a shortfall in the 1993 budget.

When the budget was agreed in August it was widely criticised for being too lenient. Economists have since lowered their growth forecasts, making budget amendments a necessity if Belgium is to meet the targets on economic and monetary union laid out in the Maastricht treaty.

The agreement on constitutional reform is supposed to pave the way for Belgium to become a federal state, with more power devolved to French-speaking Wallonia and to Flemish-speaking Flanders.

The reforms will also introduce direct elections for regional councils, and should sort out the deep-rooted dispute over voting rights for Flemish and French speakers who live in each other's regions.

However, the deal may only provide a stay of execution for Mr Dehaene's government. Opinion polls this week suggest the government has the confidence of only 19 per cent of Belgians, making it the least popular government in Belgian history.

France angered by steel levy

By William Dawkins in Paris

STRAINED trade relations between France and the US worsened yesterday when the French government called on the European Community to consider retaliation against US levies recently imposed on imported French, German and British steel.

The French industry ministry said the duties on imported European carbon steel bars and rods, provisionally imposed on September 22, would block exports worth FFr90m (£10.32m) a year from Usinor Sacilor, the French state-owned steelmaker.

"This is a protectionist operation carried out under a legal disguise," said Mr Yves-Thibault de Silguy, international affairs director of Usinor Sacilor.

EC foreign affairs ministers were expected to discuss action at a meeting next Tuesday, at France's request, he said.

Usinor Sacilor might be forced to make lay-offs next year unless the duties were reversed, Mr de Silguy said.

Paris fears the preliminary levies could be extended to flat-rolled products, the raw material for car bodies and white goods, which would block FFr1bn of French exports and FFr5bn of EC sales a year to the US.

"Such practices, which lead to the *de facto* closure of the US market to foreign steel products, call into question the US commitment to an open world trading system," said the French industry ministry.

The preliminary levies, paid as a cash deposit or bond, are due for a final decision by the US Commerce Department by December 7.

It would then be up to the International Trade Commission to confirm whether the US steel industry was suffering real injury, before customs began collecting the duties.

Usinor Sacilor, which has made several large takeovers in the US in recent years in an attempt to avoid import rows, has been harder hit by the preliminary duties than any other European steel maker.

The company is being charged a 64.55 per cent dumping margin, on top of a 12.88 per cent preliminary anti-subsidy duty imposed by the US earlier this month.

German steel makers are being provisionally charged 49.3 per cent of import value, while British imports are subject to a preliminary levy of 32.02 per cent.

US group urges action on piracy

By Nancy Dunne in Washington

A COALITION representing 1,500 US companies yesterday called for action in Latin America to combat the piracy of American movies, music and audio recordings, computer software and books.

Appearing before a Senate judiciary sub-committee, Mr Eric Smith, executive director of the International Intellectual Property alliance, released a report detailing an estimated $660m in annual losses in Central and South America.

The report estimated losses to US industry of $200m a year from displaced sales through Paraguay's export of pirated audiotapes.

It claims that El Salvador is the Central American base of audio piracy with a manufacturing capacity estimated at 100,000 units per month – nearly twice the legitimate sales of the record industry in the Central American region.

The alliance released a second study concluding that the copyright-based US industries are among the largest and fastest growing sectors of the national economy.

Scaling the defences: Roh Tae-woo and his wife Kim Ock-sook tour the Great Wall north of Beijing

A third of German youth hostile towards foreigners

By Christopher Parkes in Bonn

ALMOST one in three young German adults admits to being hostile towards foreigners, according to a survey published yesterday.

The rest of the nation's youth views antagonism towards foreigners as a serious problem for society – although second in overall importance to the state of the environment – but only 25 per cent reject "all forms of discrimination" against non-Germans.

The study, which described its sample as "self-confident, constructively critical, realistic and informed", involved more than 3,000 people, aged between 16 and 24, and was carried out by the Institute for Empirical Psychology.

The ministry for youth and family responded to the findings with a claim that other studies showed only 1 per cent of the age group surveyed was prepared to use violence against foreigners.

However, the study, which appeared as sporadic attacks on asylum-seekers continued, and followed the weekend fire-bombing of the Jewish barracks in the former Sachsenhausen concentration camp, showed that 13 per cent were "resolutely" anti-foreigner.

In a previous similar survey, made in 1990, less than 30 per cent believed xenophobia was a serious problem. Since the end of that year, however, the number of asylum-seekers arriving in Germany each year has almost doubled. More than 400,000 are expected this year.

Korean investors unfurl red flags with eye to China

John Burton on trade links fuelled by Roh's visit

CHINESE flags are flying along the main avenue of central Seoul this week for the first time since enemy Chinese troops entered the city in early 1951 during the Korean war.

The display of the red Chinese banner this time represents the prospect of economic gains that Korean companies hope to make in China after the visit of President Roh Tae-woo to Beijing, which ends today.

The establishment of diplomatic relations between Beijing and Seoul last month has already benefited Korean concerns. Samsung Engineering last week won the largest construction order any Korean company has received from China – for the building of a $200m chemical plant. The Halla Group has announced the establishment of a joint venture cement plant. And an agreement was recently signed for the construction of a Korean industrial park in Tianjin.

South Korea's cumulative total investment in China is expected to double this year to $300m, making China the leading recipient of foreign investment by South Koreans.

Sino-South Korean trade is also expected nearly to double this year to $10bn, as trade accelerates in the second half. This would make China the third-largest trade partner for South Korea after the US and Japan.

Momentum has been building for closer economic ties since the two countries established trade offices last year. This led to expanded direct trade, which had formerly been conducted through third-parties in Hong Kong.

Trade links were further improved in February when China reduced tariffs on South Korean products and granted some investment guarantees. Because of the tariff cuts, South Korea is showing signs of a slight trade surplus with China this year, after suffering deficits for the last three years.

South Korea's exports to China mainly consist of textiles, electronics, machinery, chemicals, steel and metal products, while imports from China include silk, cotton fabrics, coal, oil and copper.

President Roh's trip to Beijing is likely to increase the confidence of South Korea's big conglomerates, or *chaebol*, to begin investing in China. Medium-sized Korean companies have so far been the biggest investors in China, producing cheap, labour-intensive goods such as toys, textiles and footwear.

Thirty-seven senior businessmen, including the chairmen of the leading chaebol, accompanied President Roh to Beijing, where agreements on investment guarantees, trade and technological co-operation were signed.

The *chaebol* are interested in joint-venture factories for the production of electronic products and vehicles to take advantage of China's inexpensive labour. Samsung Electronics recently announced it would set up a VCR factory in Tianjin.

Hyundai is negotiating a joint venture to manufacture minibuses and trucks in Harbin and another to produce cars in Tianjin and Wuhan. Daewoo wants to build buses in Shanghai.

Other proposed projects include the construction of cement plants by Daewoo and Ssangyong, the development of zinc ore mines by Hyundai and the building of a machinery plant near Beijing by Lucky-Goldstar.

The contract awarded to Samsung Engineering last week for an ethylene plant in Jilin province is only the first indication of the construction orders that South Korea could win as part of China's current five-year plan, which is expected to produce $300bn in orders.

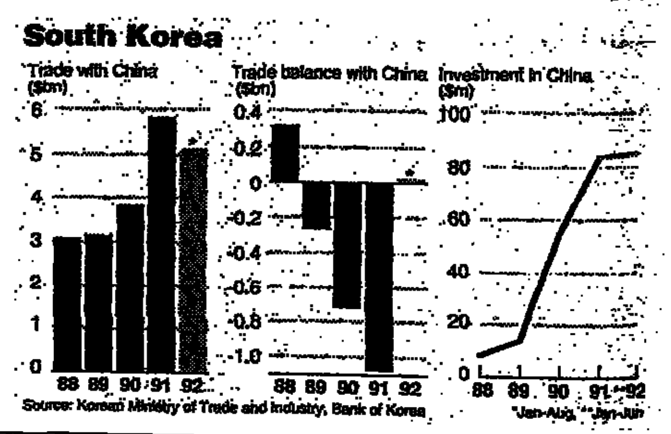
South Korean participation in the building of industrial facilities throughout China will also encourage Korean companies to expand out of north east China, where Korean investment is concentrated.

The Korean preference for this area reflects not only its close proximity to South Korea, but also that this region is home to most of the 2m ethnic Koreans living in China.

However, the official Korean Trade Promotion Corporation is warning companies about entering China in haste because of continued political uncertainty and the lack of sufficient infrastructure.

Pioneer efforts by Korean companies to penetrate China have not always fared well. Daewoo, for example, has lost an estimated $1m annually on a refrigerator factory it opened five years ago in Fuzhou.

Moreover, there is concern that China is becoming a competitor to South Korea in global markets because of its low wages. Korean producers of footwear and textiles have complained that the Chinese are taking a growing share of the Korean market for these products.



Three bankers brought into Thai cabinet

By Peter Ungphakorn in Bangkok

A GENERAL and three bankers who did not stand in this month's Thai general election have been included in the country's new cabinet, formed yesterday after more than two weeks of negotiation in the five-party coalition.

General Vichit Sukmak will have to quit the army in order to take up his cabinet post as defence minister. He is seen as a protegé of General Prem Tinsulanonda, the former prime minister who played a key role behind the scenes in reducing the power of the group of commanders who staged last year's coup and attracted mass protests this year.

Of the three bankers Mr Tarrin Nimmanahaeminda, president of Siam Commercial Bank, becomes finance minister. Mr Amnuay Viravan, chairman of the elected board of Bangkok Bank, the country's largest, becomes deputy prime minister, as does Mr Supachai Panitchpakdi, president of the Thai Military Bank.

Together, they signal the government's commitment to cautious fiscal and monetary policy. This has been seen as the foundation of Thailand's economic stability and as helping to maintain one of the fastest growth rates in the world despite periodic political problems and corruption.

Some commentators suggested that the appointment of the three could lead to a clash of superstars who do not always agree about how the economy should be handled. But Mr Chuan Leekphai, the new prime minister, yesterday said it would be healthy for ministers to have differing views so that they could counter-check each other.

Mr Chuan held out against a controversial bid by his Democrat party's secretary general, Major General Sanan Kachornprasart, to be appointed defence minister. Maj Gen Sanan, who left the army after a failed coup attempt in 1977, and the current military commanders are said not to be on good terms.

Mr Sanan will not now enjoy the promotion to full general that is normally granted to defence ministers. He has been given the industry portfolio.

Trouble also threatened when General Chavalit Yongchaiyudh, former army chief and now leader of the New Aspiration party, sought to strengthen his own clout by proposing a fourth non-elected economist to the cabinet. This would have deprived one of his MPs of a cabinet seat, and he had to back down.

The leader of the third largest party of the coalition, Major General Chamlong Srimuang, declined a cabinet seat although other members of his party are included. Mr Chamlong, a former governor of Bangkok, led the anti-military protest in May, at one stage going on hunger strike.

His more radical approach caused a rift between his party and the Democrats, which is said to have contributed to his decision not to join the cabinet.

Angola's President Eduardo dos Santos voting yesterday

Japanese finance minister rules out special borrowing

Battle looms on Tokyo deficit

By Charles Leadbeater in Tokyo

MR Tsutomu Hata, the Japanese finance minister, yesterday fired an opening salvo in what is expected to be a protracted battle over how the government should finance increased public spending to stimulate the economy.

Mr Hata, delivering a lecture in Tokyo, ruled out a return to special borrowing to finance the Y10,700bn (£52bn) emergency spending package announced in August. He also rejected demands from retailers and industrial leaders for an income tax cut in 1993 to boost flagging consumption.

Mr Hata's remarks are the furthest he has gone in pledging that the ministry of finance will not allow short-term demands for economic stimulus to corrupt what officials refer to as the hard-won "decency of public finance".

His comments signal an intensification of the political struggle over how the government should finance higher public spending, which is virtually the only domestic source of economic growth at the moment.

It is understood the ministry plans only a limited increase in borrowing to finance the emergency package with a construction bond of between Y1,000bn and Y2,000bn. Officials believe the rest of the package can be financed if the ministry is allowed to use all the Y1,500bn tax surplus it has carried over from last year. It would normally use half the sum to pay off government debt.

In addition it will seek to trim general government expenditure and finance most of the package by raising funds from individuals through the post office savings system.

However, Mr Hata's hard line is an indication of how tricky it will be to construct a durable consensus between Japan's political leadership and the various arms of the economic bureaucracy over how higher spending should be financed.

Hata: No tax cuts

Ministry hopes of trimming general expenditure are unlikely to bear much fruit. Departmental requests for the 1993 budget at the end of August are thought to suggest that general expenditure may increase by 5 per cent, while the general account, which includes capital spending and local government transfers, could grow by 7.2 per cent.

However, the ministry's main immediate concern is the way the recession is eating into tax revenues. In July these were 3.9 per cent down on the year before, with a 27.1 per cent fall in corporate tax collected and a 23.7 per cent drop in consumption tax.

Official estimates that this year's tax revenues could fall Y3,000bn to Y4,000bn short of the budgeted total of Y62,500bn are judged to be too optimistic by private sector economists.

Output shows steep monthly fall

By Charles Leadbeater

JAPANESE industry is facing its stiffest test since the deep recession of the mid-1970s, according to official figures yesterday showing industrial production last month was 7.6 per cent lower than a year ago.

It was the 11th successive month in which output was down, the longest series of falls since the 20-month run of declines between May 1974 and December 1975. Production was down 3.7 per cent on July, the largest monthly fall since January 1975.

Government economic policymakers argue that backward-looking indicators such as industrial production paint too depressed a picture. They stress more attention should be paid to forward-looking indicators, in the wake of the boost to business confidence delivered by the announcement in August of a Y10,700bn (£52bn) emergency spending package.

Hopes that the economy will be buoyed this autumn by a resurgence in business confidence was lent support yesterday by a marked improvement in official indicators used to forecast economic activity three and six months ahead.

The Economic Planning Agency said its leading indicators of economic activity leapt to 70 per cent in July, from 46 per cent the month before, one of the steepest monthly rises recorded.

It was the first time for almost two years that the leading indicators have risen above 50 per cent, which is interpreted as the dividing line between growth and decline.

However, EPA officials said the leading indicators combined with indicators of current and past economic performance still showed the economy in a slowdown. The leading indicators would need to stay above 50 per cent for three months before there could be any confidence that an upturn was on the way.

The collapse of demand was highlighted by the continued rise in industrial inventories in August. Shipments were 6.8 per cent down on the year before and so inventories rose by 4.3 per cent. The ratio of inventories to sales was 10.6 per cent up on the year before.

The continued rise in inventories, despite deep and sustained cuts in production, makes it increasingly likely that industry will have to start cutting into labour costs through early retirement and freezes on recruitment.

CIA reports quoted in Atlanta court

Rome 'aware of BNL Iraq loans'

By Alan Friedman in Atlanta

THE US federal judge presiding over the case of more than $5bn (£2.9bn) of illegal Iraqi loans made by the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL) yesterday revealed that three reports by the Central Intelligence Agency "definitely" show that the bank's head office in Rome was aware of the Atlanta loans.

Judge Marvin Shoob made the revelation, which was entered into the public records last night, during a conference in court with US prosecutors and the lawyer representing Mr Christopher Drogoul, the former Atlanta branch manager who faces a jail sentence.

The judge's disclosure marks the first time a US official has quoted secret CIA reports in court that show BNL's head office to have been involved in the Iraqi loans scandal. Two former BNL executives had previously told the FT it was untrue that Mr Drogoul acted without Rome's approval.

The central premise of the US government's case against Mr Drogoul is that he was the sole orchestrator of the loans, which helped to finance President Saddam Hussein's nuclear, chemical and missile projects.

Judge Shoob said in court yesterday that the CIA reports that he had read "definitely do support the defendant's position that BNL Rome was aware of what he was doing, and they also undermine the government's position that this was a lone wolf type operation."

Earlier Mr Luigi Sardelli, former head of BNL's North American division, testified he had sent an auditor's report to the bank's Rome headquarters detailing irregularities in Atlanta in October 1988.

Mr Sardelli said the report, mysteriously, was only brought to the attention of BNL executives in July 1989, just three weeks before US officials uncovered the illegal Iraqi loans made through the Atlanta branch. Mr Sardelli said his warnings were ignored by Mr Giacomo Pedde, former BNL chief executive.

George Graham adds from Washington: Senator Al Gore, the Democratic vice-presidential candidate, yesterday launched a swingeing attack on what has stood as perhaps President Bush's proudest achievement – the Gulf war.

Detailing loan guarantees and technology sales by the Reagan and Bush administrations that helped Iraq build up its military capability before its 1990 invasion of Kuwait, Mr Gore attacked Mr Bush's foreign policy judgment: "His poor judgment, moral blindness and bungling policies led directly to a war that should never have taken place."

Angolans vote in festive mood

By Julian Ozanne in Luanda

UNDER multi-coloured umbrellas, Angolans queued yesterday to cast their votes in the country's first democratic elections.

Voters pouring with sweat and clutching plastic voter identity cards pushed to get into polling stations in the capital Luanda in festive spirit. Members of the National Electoral Commission, whose T-shirts depicted a white dove with ballot paper in its beak, processed voters in an orderly and professional manner remarkable by most African standards.

Mr Onoffre dos Santos, commission chairman, said yesterday no violent incidents had marred the first of two days of voting, but a number of polling stations had not opened by the afternoon in the hotly contested rural provinces of Uige, Huambo and Malange where difficult logistics could become the key issue in post-electoral controversy.

In the worst case, in Uige, 160 polling stations out of 450 were still being installed yesterday after their delivery by helicopter had been delayed.

However, Mr Dos Santos said all 5,800 polling stations would be open today, and everybody would be able to vote even if it meant keeping polling stations open tonight. Mr Dos Santos also said turnout had been high, especially in Luanda.

Many voters appeared confused about how to cast their first ever democratic vote after decades of Portuguese colonialism and 30 years of civil war. Electoral commission members, watched by representatives of the political parties, went through a series of checks against electoral fraud.

Even Unita, the former right-wing rebel movement and the main electoral opponent against the ruling MPLA government, after consistently warning against electoral malpractice yesterday gave a cautious preliminary approval to the first day of voting.

Australian deficit narrows

By Kevin Brown in Sydney

AUSTRALIA'S current account deficit narrowed last month, easing fears that interest rates would have to rise.

The deficit fell to A$903m (£380m) in August in seasonally adjusted terms, from nearly A$1.5bn in July.

The government said the August figure was in line with its budget forecast that the deficit would rise from A$11.7bn last year to A$15.7bn in the year to next June.

Economists said the figures should end speculation that the Reserve Bank would raise interest rates from 5.7 per cent to dampen demand for imports.

In seasonally adjusted terms, most of the reduction in the deficit was caused by an improvement in the trade account, which was in surplus by A$338m following a deficit of A$104m in July.

US quits Philippine base today

By Jose Galang in Manila

US personnel pull out today from the Philippines' Subic Naval Base, the largest American overseas military facility, as part of a process that puts an end to a 45-year military presence.

At its busiest in the late 1980s Subic, which served as repair and supply centre for the US Seventh Fleet, was home to more than 6,000 staff and troops and 5,000 or so dependents. A year ago the Philippine Senate voted down a treaty that would have given the bases another 10 years.

American spending from the bases represented about 5 per cent of Philippine gross national product, but many argued it distorted growth.

The remaining 1,000 base staff are moving to Cubi Point, an adjacent naval air station where the final goodbyes are due in November. An agency formed by Philippine civilian and military officials will now operate the Subic facility.

The Philippines continues to have a mutual defence treaty with Washington, and Mr Richard Solomon, the new American ambassador to Manila, said yesterday that the US was ready to work out a new arrangement which could include joint military training and intelligence gathering.

The physical infrastructure facilities in the 55,000 acre Subic site are, meanwhile, attracting investors from Taiwan, Singapore, South Korea and Hong Kong. Its deep harbour and airstrip offer easy transport. It has its own electric power generator that could shield industries from the pernicious power cuts in Manila.

A Subic Bay Metropolitan Authority will oversee the transformation of the base area into an industrial enclave.

Canada lifts interest rates to aid dollar

By Bernard Simon in Toronto

THE Bank of Canada pushed domestic interest rates up sharply yesterday in an attempt to brake a sharp fall in the Canadian dollar.

The Canadian currency began sliding in early September but the fall has accelerated in the past two weeks, first in response to the turmoil in international financial markets, and more recently on fears that voters will reject proposals for a new Canadian constitution in a referendum scheduled for October 26.

The drop in the dollar led the Bank of Canada to lift its overnight call rate by 3 percentage points yesterday morning to 7.75 per cent. Commercial banks have not yet raised their lending rates, however. Their prime rate is currently at 6.25 per cent.

Based on yesterday's peak in money market rates, the prime rate should be in the 7.5-8 per cent range. But no bank wants to be first to reverse a two-year decline in rates, and the banks are also unsure how long the upturn in money-market rates will last. By midday yesterday the Bank of Canada had lowered its call rate again below 6 per cent.

The dollar was trading at 79.60 US cents at mid-morning yesterday, its lowest level since early 1988 and some 11 per cent below the peak reached in November 1991.

The currency, which was trading at almost 84 cents at the end of August, has fallen by 2 cents in the past two days.

"The markets are starting to build in the worst-case scenario of the country breaking up," the chief economist of one Toronto securities firm said yesterday. Recent public opinion polls show that opponents of the constitutional deal have a clear lead in Quebec, Alberta and British Columbia.

Mr Brian Mulroney, prime minister, warned earlier this week that a No vote would mean "the beginning of the process of dismantling Canada".

With inflation in Canada running at an annual rate slightly above 1 per cent, most economists are confident that interest rates will drop back once the political uncertainty and international currency upheaval is over.

Goldman Sachs in New York told clients earlier this week that recent turmoil in Canadian financial markets "may be overdone". The firm said that even in the event of a No vote, "nothing happens – at least immediately – and we simply revert to the status quo of the last few years".

Although opponents of the constitutional deal, known as the Charlottetown Agreement, have made a strong showing in the early stages of the referendum campaign, most commentators still expect the Yes campaign to catch up in coming weeks, especially among undecided voters.

> 'The markets are building in the worst-case scenario of the country breaking up'

The constitutional reforms would be the most far-reaching changes to Canada's system of government since the federation was formed 125 years ago.

They include changing the Senate from an appointed to an elected house, giving wider powers to provincial governments, and recognising the right to self-government for Canada's 600,000 aboriginal people. Quebec would gain the right to "preserve and promote" its distinct identity.

Some experts contend that the resource-rich prairie provinces and the less well-off regions of Atlantic Canada will gain extra clout in Ottawa through the revamped Senate.

Enrique Iglesias: raised annual lending to $7bn

Risk to democracy in Latin America and Caribbean sparks loan proposals

Washington seeks shift in IADB role

By Stephen Fidler, Latin America Editor

THE Bush administration has proposed a radical shift in the role of the InterAmerican Development Bank, suggesting it lend without protection of government guarantees and urging a big expansion in lending to attack poverty and poor social conditions.

The proposals, according to US officials, are meant to address concerns in Washington about the risks to democracy in Latin America and the Caribbean should the benefits of the emerging economic recovery in the region not be distributed among the population.

The US, the largest shareholder in the bank, also indicated its willingness to explore a "healthy increase" in the bank's capital resources to sustain its lending "indefinitely".

The officials said this would mean that capital increases after the next would not be automatic, as in the past, but would depend on need, a similar arrangement to that of the World Bank.

The previous capital increase of $26.5bn (£15.4bn), agreed in 1989, was meant to support the bank until the end of 1993. This has allowed the IADB, under its president Enrique Iglesias, to raise its lending to about $7bn a year.

The proposals also suggest diverting more of the bank's resources to the region's poorer economies. The bigger economies, which now dominate the bank's lending policies, will be expected to rely increasingly on private-sector capital inflows.

Reflecting concern that the bank's policy of lending only with a government guarantee could discourage privatisation, the US has called for the IADB to explore the possibility of lending, for a transitional period, to just-privatised companies.

The proposals were contained in a little-noticed speech this month by Mr Olin Wethington, assistant secretary for international affairs at the US Treasury. Mr Wethington said in an interview that it should be possible to complete negotiations on a capital increase next summer, in time to include it in the fiscal 1995 budget.

He said the proposals had broad support in Washington.

Mr Wethington, who would not be drawn on what he considered an appropriate capital increase, said there had been strong support from Latin America. US officials said Brazil, Argentina and Chile had all indicated they supported the proposals.

The US suggestions also include the merging of the bank's private-sector arm, the InterAmerican Investment Corporation, into the bank proper and that the Multilateral Investment Fund, set up last year to encourage investment reform, should also be integrated into the bank.

Future capital increases for the IIC should be provided by the bank. Some European governments whose shareholdings in the IIC are larger than those in the IADB are concerned that this would dilute their influence.

The US has also called for a strong reorientation of the bank's priorities towards ensuring that "economic opportunity and government services are broadly distributed". This would include a broad attack on poverty. Fifty per cent of the bank's lending should therefore support "economic opportunity, social sector development and governance objectives in all borrowing member countries".

The US also proposed that:

- Thirty per cent of the bank's lending should support traditional infrastructure, which in many countries is a big constraint on economic development.
- So-called policy-based lending – balance of payment finance to support specific policy reforms – should be reduced to 15 per cent of total lending. Many larger borrowing countries that have already opened their economies are expected to have less need for such finance. There is now a 25 per cent limit on such lending.
- The bank's concessional loans arm, the Fund for Special Operations, should be restructured to offer interest support on bank loans, rather than act as a direct lender as at present.

BLOCK ON NEW PERU LOANS LIFTED

THE InterAmerican Development Bank has lifted a block on new loans for the Peruvian government imposed when President Alberto Fujimori suspended the constitution in April, writes Stephen Fidler.

However, although loans for $221.8m (£129.7m) were signed last week to provide balance of payments support for reforms in the country's financial sector, the bank will not disburse funds until after the government has met conditions related to a return to constitutional rule.

The loans were approved by the IADB board on March 18, but the signing, due to take place at the bank's annual meeting in April, was postponed after Mr Fujimori's move.

It was not clear yesterday specifically what conditions had to be met before the loans would be disbursed. The bank is seeking to encourage further economic reform in Peru, but is unwilling to send too strong a signal of support to Mr Fujimori until there is hard evidence of a return to constitutional rule.

Peru cleared its arrears to the IADB a year ago, allowing the bank to resume lending. However, the International Monetary Fund and World Bank are unable to lend, since Mr Fujimori's actions jeopardised a multinational support operation designed to bring Peru out of arrears with the two institutions.

Brazil awaits Collor impeachment vote

By Christina Lamb in Brasilia

BRAZIL waited eagerly yesterday for the outcome of an historic congressional vote on whether to authorise impeachment proceedings against the country's first directly elected president in 30 years.

Pro-impeachment demonstrations and strikes were held in state capitals throughout the country, with crowds clad in black gathering around giant screens to watch the voting which will determine the future of President Fernando Collor. He has been accused of involvement in a multi-million-dollar corruption scandal.

Only hours before the vote was due to start there was still uncertainty over the outcome, with both sides claiming to be confident of victory. The congressional session, under tight security, promises to be a cliffhanger.

However, the stock markets rose 6 per cent yesterday morning in expectation of impeachment approval and the end to four months of political crisis.

Opposition leaders claim they have 381 votes – above the 336 required to topple Mr Collor – and were celebrating yesterday morning last-minute defections from the government side.

Mr Tasso Jereissati, leader of the PSDB, a leading opposition party, said: "I expect to win with 400 votes. More and more people are coming over to our side." However, Mr Etewaldo Dias, Mr Collor's spokesman, said the president was confident of surviving the vote and was preparing a victory address on national television.

The vote was expected to start at about 5pm local time, with congressmen intoning their vote into a microphone. Mr Collor rejected an opportunity to defend himself.

São Paulo, Brazil's largest city, was brought to a halt by a pro-impeachment transport strike. Trade unions ran frequent pro-impeachment advertisments on national television throughout the day and almost all leading newspapers carried front page editorials demanding Mr Collor's ouster and warning of social and economic chaos if he survived.

Mr Albano Franco, president of the National Confederation of Industry, said Brazil's business community backed impeachment "in the interests of governability".

Mr Genebaldo Correia, congressional leader of the PMDB, the largest opposition party, said: "The removal of a president is a traumatic process but Collor's permanence is not serving anyone. He is now completely incapable of helping the country progress."

If Mr Collor loses he will be suspended from office for up to 180 days while he is judged by the Senate. Mr Itamar Franco, the vice-president, will take over. However, the constitution is unclear on how exactly this would happen and Mr Collor's lawyers are already preparing an appeal.

Arms treaty clears last obstacle to ratification

THE Strategic Arms Reduction Treaty (Start) yesterday passed its last big hurdle before ratification, when the US Senate defeated an attempt by six right-wing Republicans to block passage, writes George Graham in Washington.

While Start has already been superseded in many respects by the more radical bilateral nuclear arms cuts agreed by President George Bush and President Boris Yeltsin at their summit in Washington in June, the administration has argued that its ratification is still important, both because the June agreement builds on Start's warhead cuts and because of the verification procedures it sets up.

But Senator Malcolm Wallop of Wyoming, with five other Republicans, had complained the treaty had too many loopholes – particularly the exclusion of mobile missile launchers. The Senate swept his objections aside with an 87-6 procedural vote, clearing the way for ratification before Congress adjourns next week.

Under Start the US would have to cut its strategic nuclear warheads to about 8,550 by 1999, while Russia would cut back to about 6,450 strategic warheads. The subsequent reductions agreed in June will further lower the number of warheads to 3,800-4,250 apiece by 1999, and to 3,000-3,500 by 2003.

Ulster talks resume as parties adopt tough stance

By Tim Coone in Dublin

THE talks on Northern Ireland's political future resume in Belfast today amid signs that positions in both the nationalist and unionist camps are hardening, and that the news blackout imposed at the beginning of the process is breaking down.

Speaking on Irish radio yesterday, Mr John Hume, the leader of the nationalist Social Democratic Labour Party (SDLP) dismissed as "gamesmanship" unionist insistence that the Irish Republic drop its territorial claim to Northern Ireland, enshrined in its constitution, before any further progress can be made.

The hardline Democratic Unionist Party (DUP) boycotted the Dublin phase of the talks last week, arguing that the Irish government had not shown any flexibility on the issue.

The unionist position "is not facing up to the real problem which is 'how do we live together in this island and how do we respect our differences?'" Mr Hume said yesterday.

He also ruled out power-sharing or majority rule as possible solutions to emerge from the talks and said that Northern Ireland "is not a natural political entity because it was unnaturally drawn, the normal political standards do not work."

The SDLP proposal is for a six-man commission to govern the province, including representation from Dublin and the EC. The Unionists have flatly rejected the proposal.

The DUP said at the weekend that it will abandon the talks entirely after November 16th, the date set for the next Anglo-Irish Conference meeting between the British and Irish governments, if agreement between the four Ulster parties and the two governments cannot be reached by then. The DUP said it will only attend the talks in Belfast this week, if the Republic's constitutional claim is on the table and is being dealt with "seriously".

Smith attacks Major as 'opt-out' PM

By Ivo Dawnay, Political Correspondent

MR John Smith rallied the Labour party to his leadership yesterday with a thrusting attack on the competence of Mr John Major as "an opt-out prime minister leading a do-nothing government off the European stage."

In his first leader's address to the party conference, he targeted Conservative disarray after the UK's abandonment of the exchange rate mechanism, promoted the idea of "active government" and consolidated Labour as the party of Europe.

His 50-minute speech, given a three-minute ovation by delegates at Blackpool, was clearly aimed at raising morale after four election defeats by drawing attention to his own image of confident authority.

By contrast, he accused Mr Major and Mr Norman Lamont, chancellor, as joint authors of the sterling crisis, mocking them as "the Laurel and Hardy of British politics".

The public had witnessed "a government gripped by indecision, paralysed by fear and a prime minister plodding to disaster," he said, charging Mr Major with humiliating Britain and betraying the trust of the British people. The Labour leader said that humiliation was completed on Monday when Mr Lamont apologised for criticisms of the Germans.

Delegates welcomed Mr Smith's debut, however many conceded that its low volume delivery and abrupt conclusion had come as a stark contrast to the oratorical fireworks of former leader Mr Neil Kinnock.

Mr Tony Banks, the leftwing MP, described it as a "sensible shoes" style that stressed the leader's credentials as a safe pair of hands. "In a situation when the country is in a deep mess, it underlined the competence of John Smith," he said.

After his attack on the government, Mr Smith set out his own personal creed in language that reflected his Christian socialist upbringing. Claiming that Conservatives believed people were driven purely by greed and self-interest, he said Britons wanted to be citizens of a community that "does not pass by on the other side".

In a passage on Europe, Mr Smith reaffirmed his belief in the Maastricht treaty by insisting that "Europe cannot stand still". But in a gesture to Labour's doubters, he stressed the need for the UK to take up the social chapter of workplace rights and the importance of decisions being made at the closest practical level to the people.

Incompetence has been blamed for a failed sporting dream, **writes Ian Hamilton Fazey**

City learns financial lesson from student games fiasco

Counting the cost of taking part: Sheffield Council budgeted for a £5m loss but the figure reached £10.4m

THE World Student Games in Sheffield last summer were a triumph for sport but a political and financial disaster for the north of England city.

The idea was to demonstrate vision, Yorkshire grit and Sheffield's ability to pull itself up by its bootstraps after the collapse of much of its industry in the early 1980s.

Instead, the city has appeared incompetent at management and financial control. The council budgeted for a £5m loss to be on the safe side, but things went so wrong losses were £10.4m – and no one involved knew they were being incurred.

Last week the council's policy committee drew up plans to sack about 700 people to finance £7.5m of overspending on its current budget. Mr Mike Bower, the council's Labour leader, says this cannot be linked to the extra losses on the games, but is just as easily attributable to spending on education, housing or cleansing.

However, Mr Gordon Sutton, district auditor for the area and the government's watchdog on public spending, says the games compounded Sheffield's already serious financial difficulties, making cuts in jobs and services inevitable.

The catalogue of managerial errors and chaos surrounding the games has been revealed this week in reports by Mr Sutton and Mrs Pamela Gordon, the council's chief executive.

Mr Sutton says optimistic income projections by Mr Ray Gridley, Sheffield's director of housing, seconded in June 1990 to run the games, misled councillors. On Friday the council will debate whether he should be disciplined. Mrs Gordon's position will also be scrutinised.

The reports, however, also make clear that other officials and councillors were not assertive enough in satisfying themselves of the risks involved. Powers had been delegated to Mr Gridley and Mrs Gordon to get on with the job, but Mr Sutton says too many people assumed things were under tighter control than they were, and there was no proper internal audit.

A belief that sufficient income might materialise was sustained even into the last four weeks before the games started, with senior council officials and elected councillors unaware of the disaster unfolding before them. It was only four months later, when accounts were finalised, that they realised how badly things had gone wrong.

The reports do not consider the period before June 1990, when the council took over the games, but Mr Bower and Mrs Gordon believe the council started at a disadvantage. Britain was in recession – a sharp contrast to 1987, when the games were awarded.

The basic problem has always been that Sheffield embarked on a high-risk £20m-plus venture with poor prospects of selling television rights and, hence, consumer-product sponsorship.

The unmarketability of the games as a worldwide TV spectacle dogged Universiade GB, a company set up the council and Sheffield's private sector, to manage them.

There were clashes between Mr Peter Burns, a former Reed International director brought in as chief executive, and left-wing Labour councillors over his "capitalistic" management style. He left at the end of 1989 in a blaze of bad publicity.

When Universiade GB eventually became irredeemably insolvent because it could not even raise enough sponsorship to keep itself going, the council took over, believing it could do better. It failed.

There is bitterness about a perpetually hostile press, which refused to join in the optimism and kept asking about fundamental unmarketability.

Some believe this eventually made selling the games impossible. However, on fierce civic pride, and a determination to prove Sheffield's critics wrong, the two reports are silent.

US airlines attack BA flight plans

By Daniel Green

BRITISH Airways, the UK flag carrier, is to start services between the US and Birmingham and Manchester.

The announcement yesterday triggered a sharp attack from the US airline industry which said the move highlighted the unfair advantages BA had over its US rivals.

Mr Stephen Wolf, chairman of US carrier United Airlines, last night met Mr Ian Macgregor, transport secretary, to renew pressure on the UK government to ease restrictions on US carriers operations in the UK.

He and other US airline chiefs are pressing for the changes as a *quid pro quo* for British Airways' proposed purchase of a $750m stake in the US carrier USAir.

"I want to make sure the British government understands the degree by which BA wins in this deal," said Mr Wolf.

"BA would be able to run a US domestic route network while we would not have access top UK regions or onward flights to third countries. BA's announcement [on Birmingham and Manchester] underscores the discriminatory nature of the air services agreements between our two countries."

BA did not need prior permission to announce the new services because it already had the right to fly the routes.

BA's services will start in March 1993 and will link Birmingham with Newark, near New York and Manchester with Los Angeles, using Boeing 767s carrying up to 208 passengers.

MMI clients seek insurance cover scheme

By Richard Lapper

LOCAL authority policyholders of Municipal Mutual, the stricken insurance company, will press creditors to accept a scheme of arrangement – allowing it to meet claims – if this week's rescue talks with European insurance companies break down.

Under a scheme of arrangement MMI would cease to trade but would continue to administer the payment of claims. This would avert a potentially costly liquidation of the company. Mr Clive Grenyer, under secretary of the Association of County Councils, said the scheme would allow local authorities to have some outstanding claims paid.

The company yesterday called off a meeting with Mr Grenyer and other local authority officials, arguing that negotiations with the French group, Garantie Mutuelle des Foncionnaires (GMF) were at "too delicate a stage."

Municipal Mutual insisted its planned talks with the French group would take place later this week.

GMF said on Monday it was no longer interested in acquiring Municipal Mutual's business, but it is understood to be ready to act as go-between in talks between MMI and members of Eurosafe – a network of European companies which sell insurance to government officials.

GMF's chairman Mr Jean-Luis Pétriat is chairman of the Eurosafe consortium, whose members include HUK Coburg of Germany, Societe Mutuelle des Administrations Publiques of Belgium, Gruppo MEIE Assicuriazioni of Italy, Nueva Corporacion of Spain, Laederstandens Brandforsikring of Denmark, Phoenix General Insurance of Greece, Lusitania of Portugal and Les Assurances Mutuelles d'Europe of Luxembourg.

The Consumers' Association pressed the government to issue a statement on the future of Muncipal Mutual. It said the government "had allowed the company to trade below agreed solvency margins."

Recession claims 4,500 jobs as gloom deepens

By Michael Cassell, Business Correspondent

THE UK recession claimed more than 4,500 jobs yesterday as new figures confirmed that the number of company failures is still accelerating and about to break all records.

A fresh wave of redundancies across the country brought union claims of a "jobs avalanche" and renewed attacks on the government's economic policies.

With industry still awaiting any significant signs of recovery, Dun & Bradstreet, a business information company, said that more than 46,000 companies collapsed in the first nine months of this year - almost equal to the total number of corporate failures in the whole of 1991.

The company said the recession could "devastate" small businesses for some time to come.

Reacting to the latest redundancies, Mr John Edmonds, general secretary of the GMB general workers' Union, claimed unemployment was now "running out of control", with Britain heading towards "the worst winter for unemployment in living memory".

Worldwide recession in the machine tool industry has claimed another UK victim with the appointment of administrative receivers at Coventry-based Wickman Machine Tool Manufacturing. In its heyday of the 1960s and 1970s, the company was Europe's largest manufacturer of multi-spindle automatics, used for high-volume production of turned parts by the automotive and other industries. The receivership is the third in the UK machine tool industry this summer and will increase frustration over the government's attitude towards manufacturing.

Mr Bill Jordan, president of the Amalgamated Engineering and Electrical Union, said there was "a jobs avalanche on the move".

The biggest jobs blow yesterday was an announcement that about 2,000 jobs will go at the government's Defence Research Agency, set up last April to make the government's defence research activities more cost effective. The job losses, to achieve savings of £90m a year, will take two years to complete.

In the private sector, up to 1,800 jobs are to be shed by Sears, the UK retail and mail order group. In the latest reorganisation of its British Shoe Corporation business, the group plans to close 350 shops - trading under High Street names like Dolcis, Saxone and Freeman Hardy Willis - over the next three years.

Elsewhere, Northern Telecom, the Canadian telecommunications company, is to axe 426 jobs, most of them in Northern Ireland. The company blamed cost cutting forced by the recession.

Pirelli Cables, the UK subsidiary of the Italian tyre and cable company, is to sack nearly 300 workers at plants in Hampshire and Newport, south Wales. The company blamed falling demand.

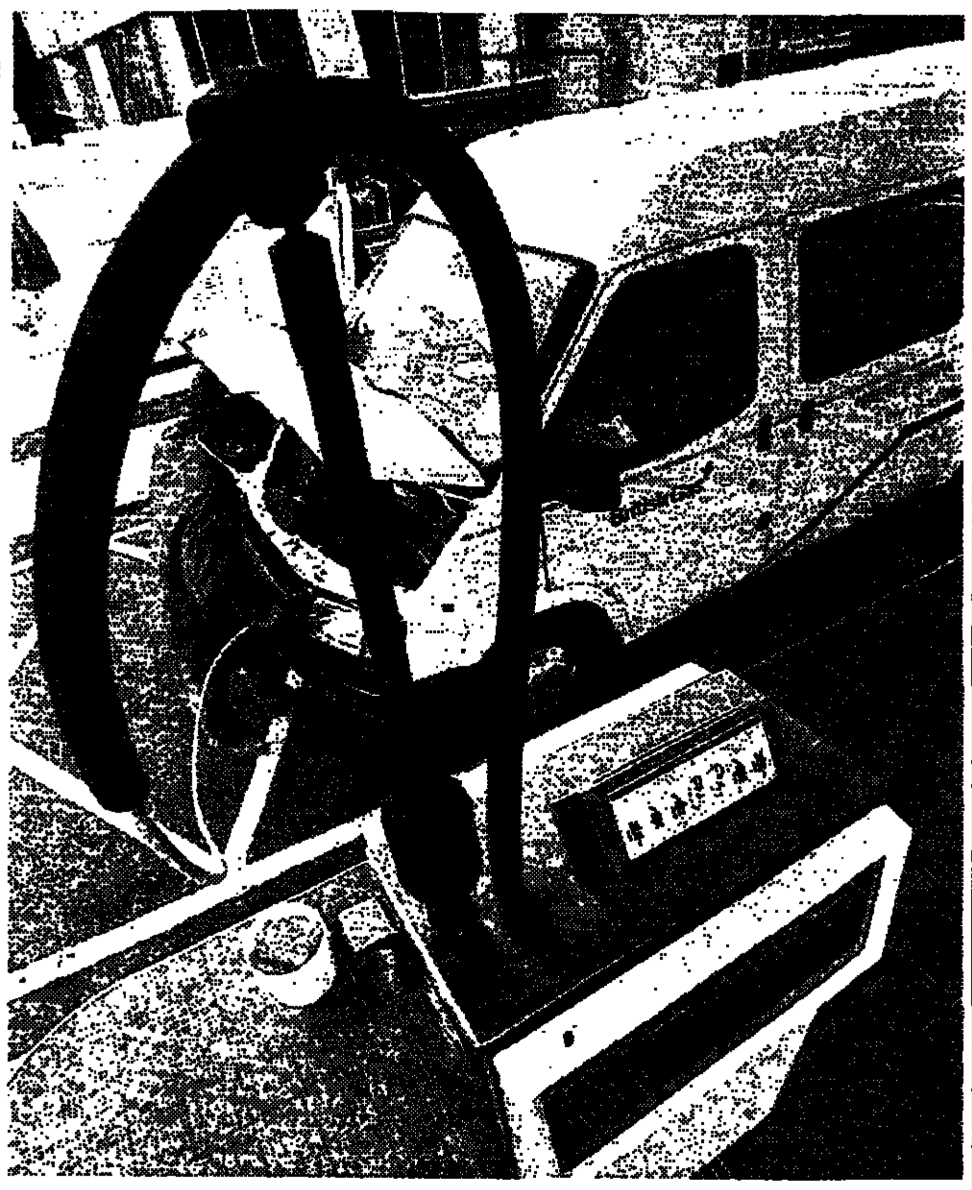
To round off another gloomy day on the jobs front, Independent Television News said it was sacking 112 technical support and administration staff as part of a cost reduction programme. The company will ask for volunteers but it said compulsory redundancies could not be ruled out.

Sears results, Page 17

UK business failures rise by 53%

BUSINESS failures in the third quarter of this year rose by 53 per cent compared with the same period last year, according to figures released today. They highlight the continuing impact of the recession, especially on smaller companies, Peter Marsh writes.

According to Dun & Bradstreet, a business information company, the 46,545 failures in the first nine months of the year means the 1991 total figure has almost been surpassed. In the third quarter, 15,823 businesses failed, compared with 10,371 in the same period in 1991. The total for the first nine months was 39 per cent up on the 33,532 recorded during the same period last year.



Company decides to hit the gas pedal

AT a conference in London next month, British Gas will launch a drive to put gas-powered vehicles on the roads of Britain, writes Clive Cookson.

British Gas expects to be running 100 of its own vans and cars on compressed natural gas by the end of this year and is putting out to tender an order to convert 200 more vehicles to gas early next year.

The company is also taking steps to set up the national infrastructure that will be essential if gas is to compete with petrol and diesel.

By next spring British Gas will have a network of nine natural gas refuelling stations such as the one pictured above. These will be available for use not only by its own vehicles but also by other companies that invest in NGV (natural gas vehicle) fleets.

The UK lags far behind several other countries in introducing gas as a transport fuel. British Gas estimates that almost 1m NGVs are in use worldwide. Italy, Russia, Australia, New Zealand, Canada and the US all have large NGV programmes.

The impetus behind NGV development in many parts of the world is environmental. NGVs emit 30 per cent less carbon dioxide and 70 per cent less carbon monoxide than petrol-powered vehicles. Because gas burns more slowly than petrol, the engine runs more quietly and suffers less wear and tear.

The UK government has fixed excise duty on compressed gas fuel at half the level of leaded petrol. British Gas's target cost of conversion is £1,000 per vehicle. At those rates, the pay-back period for a van running 25,000 miles per year would be about two years.

The main disadvantage of today's "bi-functional" NGVs – which have conventional engines modified to run on either gas or petrol/diesel – is the space taken up by the gas cylinders. But this problem should disappear in the long run, as the motor industry develops dedicated NGVs.

Britain in brief

Devaluation may benefit oil industry

THE fall in the value of sterling after the UK's withdrawal from the European exchange rate mechanism could add £2.5m a day to the output of the UK oil industry, according to the Royal Bank of Scotland's monthly oil index.

The recent rise in the dollar – the currency in which oil is traded – has produced an "almost complete about turn" in the fortunes of the oil industry, the bank's economists said. In August, output rose by 2.6 per cent to just under 1.9 million barrels a day, but this was more than offset by a 3 per cent fall in oil prices to just under $20 a barrel and a 1.2 per cent weakening of the dollar-sterling exchange rate.

Companies repay more debt

Companies continued to repay debt in the three months to the end of August, according to figures from the British Bankers' Association (BBA) which underline the weakness in economic activity among businesses. The repayments were offset by a large rise in borrowing by individuals, mainly for house purchases, which the association thinks was largely due to the rush to beat last month's deadline on the re-introduction of stamp duty on house sales.

Few benefits for gas users

Large gas users have seen no price benefits from measures to introduce competition into the UK gas market and face considerably higher prices than users in some European countries, according to Mr Ian Powe, director of the Gas Consumers Council.

The Gas Consumers Council, which represents 18m UK gas customers, said one reason for the price rise for large users was the requirement - imposed by the Office of Fair Trading - that British Gas must halve its share of the industrial supply market by the mid-1990s.

Recovery in unit trusts

Unit trust business recovered slightly in August, before the sterling crisis, with a net inflow of £56m following net outflows in June and July.

The Unit Trust Association interpreted the rise as showing that private investors' confidence in the UK stock market had recovered. The net inflow to UK Growth funds from private investors was £73m, while £59m came from institutions. Other UK sectors also recorded strong inflows. Much of this was at the expense of overseas sectors, several of which recorded substantial outflows – £22m from Japan, £31m from North America, £33m from Europe, and £42m from the Far East excluding Japan.

Leading unions near merger

Britain's two big general unions – the GMB and TGWU – have taken another step towards merger by announcing a joint recruitment campaign in the building materials industry.

The unions have agreed to sign people up into each others' union depending on which is larger in a particular company and will even ask members to switch to the stronger union on their site. Union leaders hinted that this principle might be extended to other industries where the two unions compete for members – such as the food and drink industry or hotel and catering.

CAA seeks passenger fund

The Civil Aviation Authority has recommended to the government that a fund for the protection of scheduled airline passengers should be raised by a levy on UK airlines rather than by a charge imposed on each customer.

FOR THOSE WITH MORE THAN A PASSING INTEREST IN TIME...

Before you put your name down for a Patek Philippe watch *fig. 1,* there are a few basic things you might like to know, without knowing exactly whom to ask. In addressing such issues as accuracy, reliability and value for money, we would like to demonstrate why the watch we will make for you will be quite unlike any other watch currently produced.

"Punctuality", Louis XVIII was fond of saying, "is the politeness of kings."

We believe that in the matter of punctuality, we can rise to the occasion by making you a mechanical timepiece that will keep its rendezvous with the Gregorian calendar at the end of every century, omitting the leap-years in 2100, 2200 and 2300 and recording them in 2000 and 2400 *fig. 2.* Nevertheless, such a watch does need the occasional adjustment. Every 3333 years and 122 days you should remember to set it forward one day to the true time of the celestial clock. We suspect, however, that you are simply content to observe the politeness of kings. Be assured, therefore, that when you order your watch, we will be exploring for you the physical—if not the metaphysical—limits of precision.

Does everything have to depend on how much?

Consider, if you will, the motives of collectors who set record prices at auction to acquire a Patek Philippe. They may be paying for rarity, for looks or for micro-mechanical ingenuity. But we believe that behind each $500,000-plus bid is the conviction that a Patek Philippe, even if 50 years old or older, can be expected to work perfectly for future generations. In case your ambitions to own a Patek Philippe are somewhat discouraged by the scale of the sacrifice involved, may we hasten to point out that the watch we will make for you today will certainly be a technical improvement on the Pateks bought at auction? In keeping with our tradition of inventing new mechanical solutions for greater reliability and better time-keeping, we will bring to your watch innovations *fig. 3* inconceivable to our watchmakers who created the supreme wristwatches of 50 years ago *fig. 4.* At the same time, we will of course do our utmost to avoid placing undue strain on your financial resources.

Can it really be mine?

May we turn your thoughts to the day you take delivery of your watch? Sealed within its case is your watchmaker's tribute to the mysterious process of time. He has decorated each wheel with a chamfer carved into its hub and polished into a shining circle. Delicate ribbing flows over the plates and bridges of gold and rare alloys. Millimetric surfaces are bevelled and burnished to exactitudes measured in microns. Rubies are transformed into jewels that triumph over friction. And after many months—or even years—of work, your watchmaker stamps a small badge into the mainbridge of your watch. The Geneva Seal—the highest possible attestation of fine watchmaking *fig. 5.*

Looks that speak of inner grace *fig. 6.*

When you order your watch, you will no doubt like its outward appearance to reflect the harmony and elegance of the movement within. You may therefore find it helpful to know that we are uniquely able to cater for any special decorative needs you might like to express. For example, our engravers will delight in conjuring a subtle play of light and shadow on the gold case-back of one of our rare pocket-watches *fig. 7.* If you bring us your favourite picture, our enamellers will reproduce it in a brilliant miniature of hair-breadth detail *fig. 8.* The perfect execution of a double hobnail pattern on the bezel of a wristwatch is the pride of our casemakers and the satisfaction of our designers, while our chainsmiths will weave for you a rich brocade in gold *figs. 9 & 10.* May we also recommend the artistry of our goldsmiths and the experience of our lapidaries in the selection and setting of the finest gemstones? *figs. 11 & 12.*

How to enjoy your watch before you own it.

As you will appreciate, the very nature of our watches imposes a limit on the number we can make available. (The four Calibre 89 timepieces we are now making will take up to nine years to complete). We cannot therefore promise instant gratification, but while you look forward to the day on which you take delivery of your Patek Philippe *fig. 13,* you will have the pleasure of reflecting that time is a universal and everlasting commodity, freely available to be enjoyed by all.

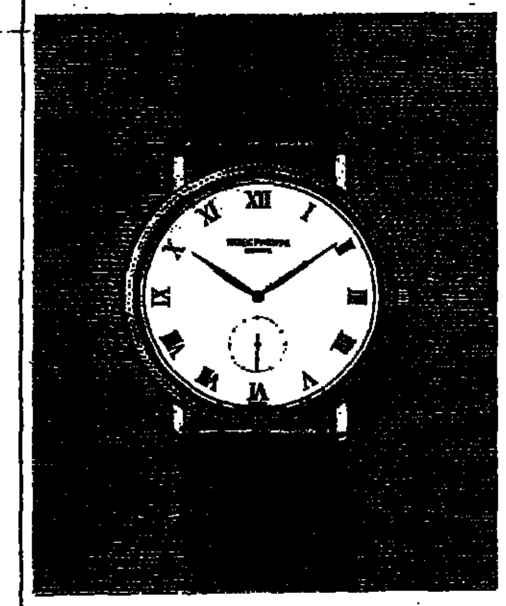


fig. 1: The classic face of Patek Philippe.

fig. 2: One of the 33 complications of the Calibre 89 astronomical clock-watch is a satellite wheel that completes one revolution every 400 years.

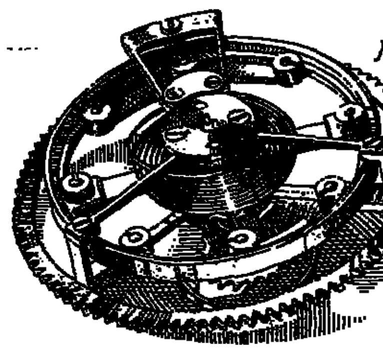


fig. 3: Recognized as the most advanced mechanical regulating device to date, Patek Philippe's Gyromax balance wheel demonstrates the equivalence of simplicity and precision.

fig. 4: Complicated wristwatches circa 1930 (left) and 1990. The golden age of watchmaking will always be with us.

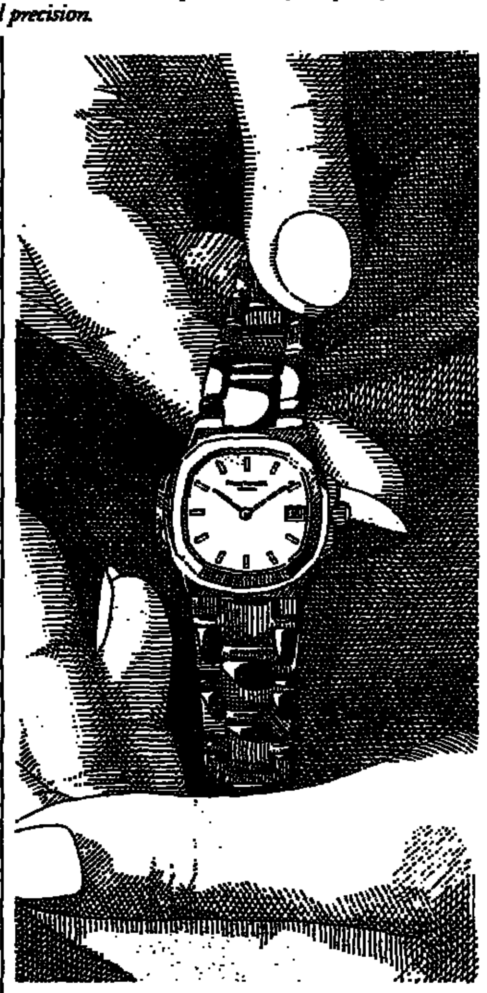


fig. 6: Your pleasure in owning a Patek Philippe is the purpose of those who made it for you.

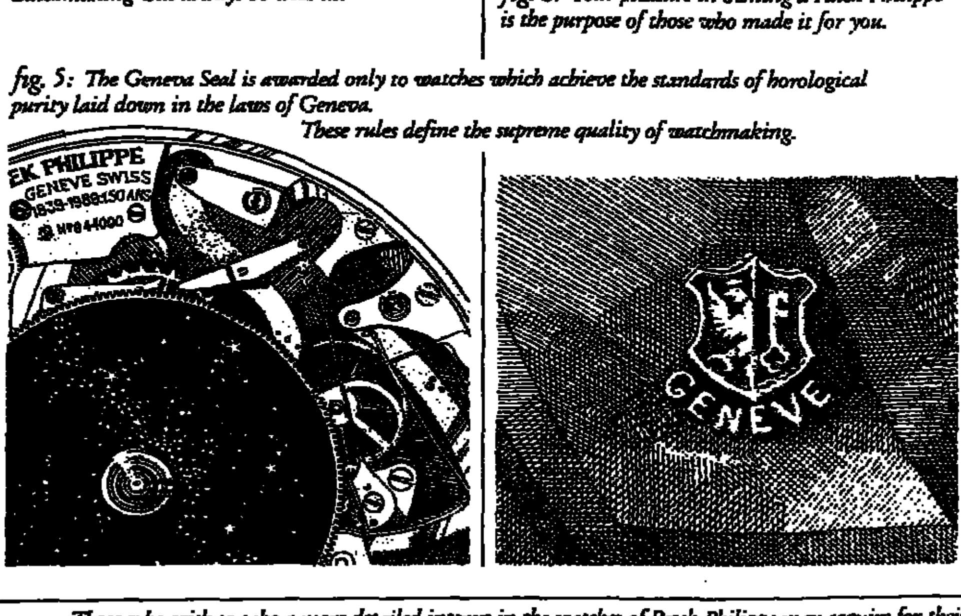


fig. 5: The Geneva Seal is awarded only to watches which achieve the standards of horological purity laid down in the laws of Geneva. These rules define the supreme quality of watchmaking.

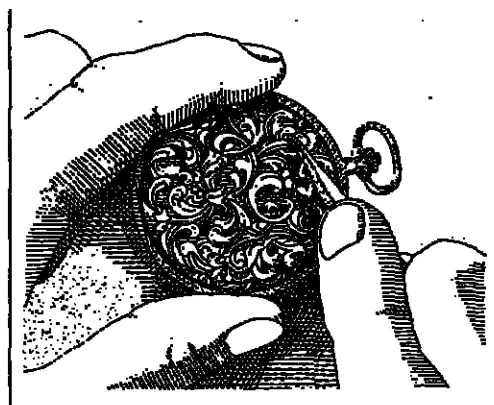


fig. 7: Arabesques come to life on a gold case-back.

fig. 8: An artist working six hours a day takes about four months to complete a miniature in enamel on the case of a pocket-watch.

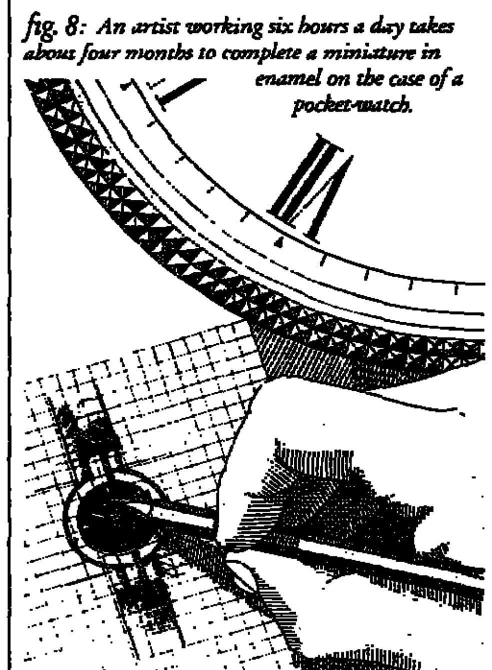


fig. 9: Harmony of design is executed in a work of simplicity and perfection in a lady's Calatrava wristwatch.

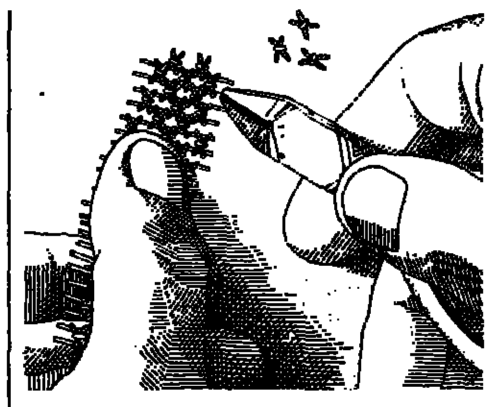


fig. 10: The chainsmith's hands impart strength and delicacy to a tracery of gold.

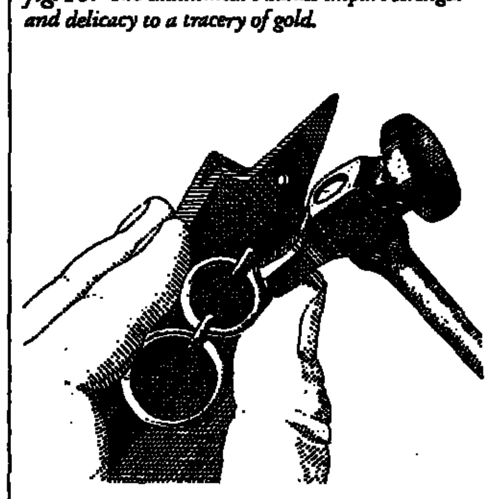


fig. 11: Circles in gold: symbols of perfection in the making.

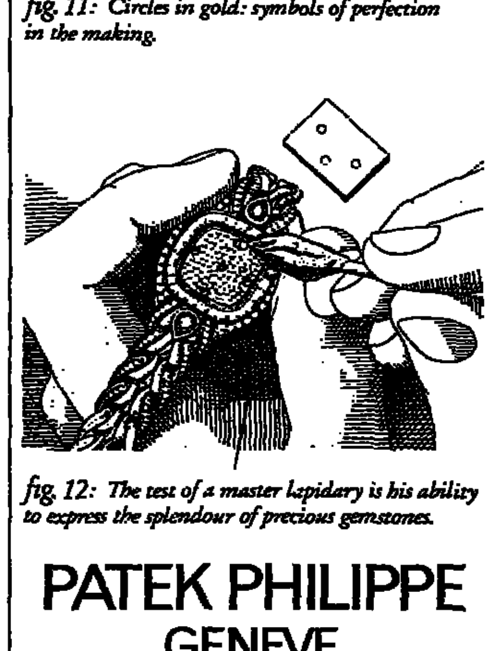


fig. 12: The test of a master lapidary is his ability to express the splendour of precious gemstones.

PATEK PHILIPPE
GENEVE

fig. 13: The discreet sign of those who value their time.

Those who wish to take a more detailed interest in the watches of Patek Philippe may acquire for their libraries Patek Philippe's books on the matter. For a catalogue and order form, please write "catalogue" on your visiting card and send it to Patek Philippe, 41, rue du Rhône, Geneva, Switzerland.

MANAGEMENT

When the show must go on

Destruction of life and property on the scale caused by the IRA bomb blast at the Baltic Exchange in the City of London in April (above), is not, fortunately, an everyday occurrence. Nevertheless, increasing numbers of organisations are engaging in "business continuity planning" just in case disaster should strike.

According to a Gallup survey commissioned by Coopers & Lybrand, the accountants and management consultants, 62 per cent of the top 500 UK companies now have an emergency plan, up from 48 per cent a year ago.

However, that still leaves a significant proportion of organisations with no contingency plans for staying in business should the worst happen. Moreover, among companies which did have plans, almost half focused exclusively on what would happen in the event of the loss of a computer system.

As Coopers & Lybrand points out: "Any disaster that affects an organisation's main computer systems will, in all likelihood, impact all of the business functions located in the same building." There is little point organising manual systems to replace computers if staff have no back-up offices to work in or equipment.

Only 52 per cent of existing plans make specific provision for handling customer enquiries during a disaster, highlighting "the extent to which existing plans focus too heavily on systems recovery rather than the needs of the business".

Perhaps most surprisingly, only 2 per cent of companies in the manufacturing sector appear to have any arrangements for alternative manufacturing facilities in the event of a disaster hitting the main plant.

Diane Summers

Executives are being deprived of their desks to save space but there are compensations, says **Alan Cane**

Sit where you like

An Englishman's home may still be his castle, but the fortifications around his workspace are collapsing as property prices and the quest for greater efficiency batter traditional ideas of office organisation.

Open plan offices, it is clear, were the thin edge of the wedge. Executives "owned " their desks but shared a communal working space. Now, a number of companies are beginning to implement the concept of "hotdesking" or the "virtual office", where executives own neither desk nor workspace but make use of any desk that is free during visits to the office.

The pioneers of hotdesking in the UK are the large multinational computer companies, International Business Machines (IBM) and Digital Equipment Corporation (DEC), as well as Andersen Consulting, the management consultancy.

Clearly, it is a concept suited only to organisations where staff spend appreciable amounts of time away from their desks and where office space is at a premium. Andersen's consultants, for example, are as often at clients' premises as in the company's Arundel Street, London, offices. Hotdesking, Andersen claims, is making possible an occupancy ratio in Arundel Street of three square metres a person, or one third the conventional rate.

The two computer companies say that technology is both the reason for, and the key to, hotdesking. All traditional computer manufacturers have been hard hit by a combination of the recession, price collapse caused by technological advances and static demand. As a consequence, they are "rightsizing", laying off staff and closing facilities while looking for ways to make more economical use of space.

Hotdesking for such companies is possible only because of the "intelligence" it is possible to build into a desk through computers and clever telephone systems.

While IBM has experimented with hotdesking at a number of its older sites in the UK, its recently completed £60m national marketing centre in New Square, Bedfont Lakes, a few minutes from London's Heathrow Airport, is the company's first offices purpose-built for the new approach.

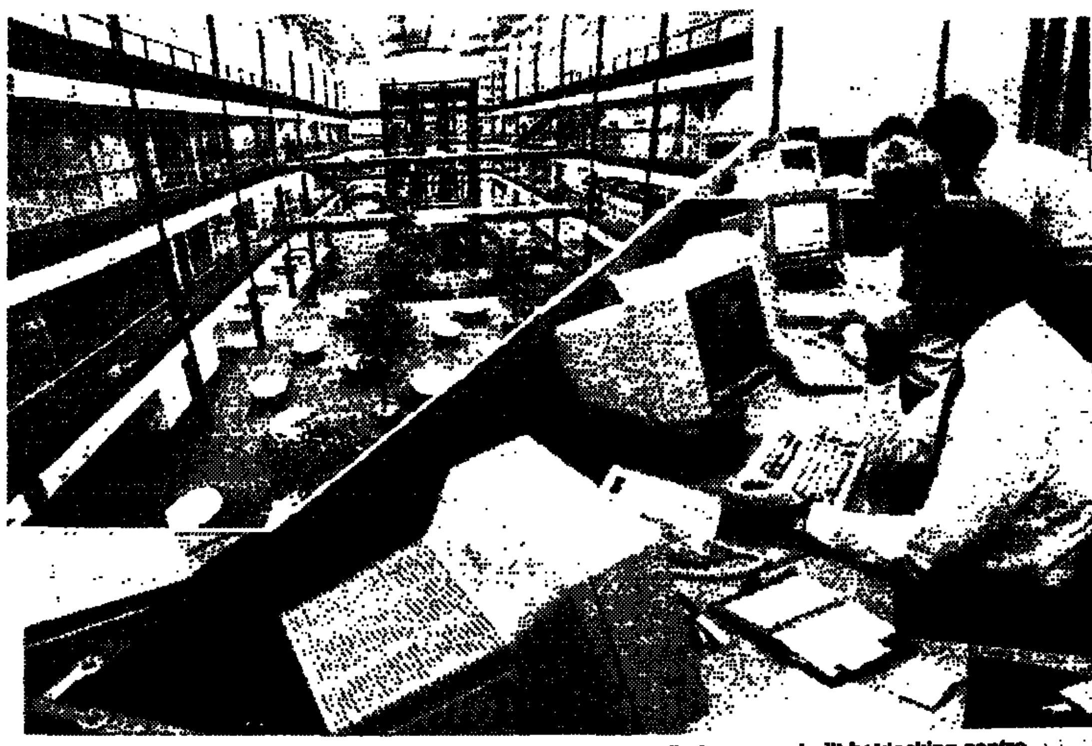
Open plan offices are spread round the periphery of the building at three levels, with open spaces in the centre providing communal dining and recreational facilities. The overall impression is of black girders, bolts and glass.

IBM's idea in developing Bedfont Lakes was to consolidate staff scattered around four leased buildings in west London on to one long-term site. Eventually there will be 1,000 people in the building. At present, it is only about half full as staff move from the older offices, but IBM's planners reckon they are achieving between 20 and 30 per cent space savings compared with traditional office organisation.

IBM's ideas of shared space go back to 1988 when its planners noticed that unoccupied space was growing as the nature of work changed. Surveys showed that desks were typically used for little more than two-thirds of the working week and usually much less.

Research also revealed that while most of the company's larger customers already had an IBM terminal on their premises, IBM's own employees were in favour of portable technology and flexibility in their place of work. Customers, software developers and systems builders had all taken precedence over IBM's own marketing and sales specialists when it had come to the allocation of the latest computing technology.

This unfulfilled desire for flexibility formed the basis for a unique deal. Employees were persuaded to give up their personal space – individual desks and offices – but in exchange were given the latest IBM personal computer technology, including portable systems.



IBM's national marketing complex near Heathrow is the company's first purpose-built hotdesking centre

In other words, Bedfont Lakes staff have traded off a loss of identity in the workplace against freedom. IBM's own surveys suggest they are at least as happy in the new environment as they were in the old.

Work areas at Bedfont Lakes are of two sorts; one for staff who come into the office every day and which are little different from traditional offices. Then there are the hotdesks which offer standard facilities throughout the building.

Each member of staff has his or her own secure locker for personal effects. There are larger, lockable filing cabinets for documents and records used by work groups.

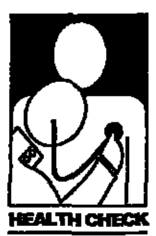
Each hotdesk is equipped with a personal computer connected to the corporate network, a point to plug in a portable computer and a telephone handset. When staff visit the building, they find an empty desk and key into the computer system which automatically sends their own electronic mail and telephone messages to that workspace.

In practice, staff tend to use the same desk or one close to it: members of work groups cluster together as if they owned the same desks and office space. Robert Young, a customer service specialist, says: "I thought I was not going to like it, but it is working quite well."

He now uses a laptop computer in the office and at home. It is an innovation which has opened new possibilities for staff. "Some people in this department are quite determined never to go into the office again," one manager admitted.

Tackling the types who take stress to heart

Dr Michael McGannon looks at new research into coronary disease



HEALTH CHECK

Since the 1960s, attempts have been made to define certain personality characteristics that make some people more prone to coronary heart disease than others. "Type A" people, as opposed to their more laid-back "Type B" counterparts, have been described as the sort of people who are always in a hurry, are inordinately impatient, aggressive or even hostile, speak in an explosive way, and are goal-oriented, competitive and driven.

Over the years there has been no clear verdict on whether Type A personality can be categorised as an independent risk factor for heart disease. However, new research is shedding light on this complicated issue.

Two characteristics of Type A behaviour which may well lead to heart disease, and which have also been linked to suppressed immune function and cancer deaths, have been isolated by US researchers. They are: hostility – antagonism as a form of severe competitiveness – and time urgency – "never enough hours in a day".

These two traits are interrelated: to a person who has a sense of needing to compress more and more activity into a shrinking day, anyone or anything blocking that process will cause irritation and may provoke a hostile reaction.

The human nervous system evolved during more primitive times when the main threats to survival were physical. When faced with stress, the body's systems, therefore, are geared to an appropriate physical response. The nervous, cardiovascular and hormonal systems prepare the body either for flight or a fight.

For example, blood pressure, heart rate and respiratory rates all rise, increasing oxygen demands by the heart; muscle tension increases in preparation for a flight to safety, or a fight; and sweating increases as a cooling mechanism.

In a modern context, there is usually no physical resolution to this stress. Moreover, at the moment when the mind and body scream for simple things such as oxygen and water, modern managers inappropriately respond with cigarettes, which decrease the oxygen-carrying capacity of the blood, or immoderate alcohol, which can depress lucidity, raise blood pressure and force the body to lose precious water.

A personal strategy for coping with stress should include:

- Broadening your definition of success to include self-preservation. This first step, already adopted by younger managers on the rise, is taken not just for your own career but also for your family and friends. Do not exchange precious years of your life, your marriage or your health for a perceived need for professional control. Ask yourself of every stressful situation: "Is it really worth getting sick for?"
- Listening carefully to your body and mind. Start to decipher individual signs and symptoms, not as something to escape or anaesthetise, but as valuable warning of a potentially serious underlying problem. Watch for high blood pressure, chronic fatigue, nervous eating or drinking, sleeplessness, peptic ulcers, tension headaches, obesity and depression.
- Managing your time intelligently. Start by living in the real world and planning accordingly. Plan breaks into your daily agenda – even five minutes to take a breath of fresh air and re-evaluate – and make daily checklists. Finish what you have on your plate before loading more on.
- Planning some physical exercise in your daily life. Walk for 10 minutes after lunch and dinner. This will help periodically to decompress an otherwise chronically compressed cardiovascular system. If you need a structured exercise programme, consider joining a health club near your office.
- Not making your reaction to stress more dangerous to your life than the stress itself. There are healthy ways to detach yourself from the stresses that threaten your quality of life: for example, talking things over with your spouse, a health professional or a member of the clergy, deep breathing and yoga, meditation and prayer, going to see a film, humour, massage, delegating, taking a holiday, engaging in physical activity, decreasing the use of coffee and alcohol or going fishing.

The author is the medical director of the Insead Business Health course.

Kevlar* for protection against injury. Sontara* and Tyvek* for protection against infection.

Every operating theatre contains a hidden risk – bacteria. They can jeopardize the most careful surgical work. Despite high standards of hygiene, painful, sometimes potentially fatal, wound infections still occur in more than 5% of all operations performed today. This conclusion was reached on the basis of investigations carried out in the USA.
On the other hand, surgeons are also at risk if, for example, they accidentally injure themselves with a scalpel while operating on an HIV-positive patient.
In such cases the danger of infection is, naturally, high. Thanks to Du Pont's development work, however, we are now able to control these risks.

SONTARA increases hygienic standards.

SONTARA is a spunlaced fabric specially developed by Du Pont and consisting of a blend of polyester fibre and woodpulp. This fabric forms the basis for operating gowns and drapes available from manufacturers such as Mölnlycke and Baxter. Unlike conventional cotton operating gowns and drapes, SONTARA provides a considerably improved barrier against bacteria, a fact confirmed in a comparative test performed by Prof. Werner at the University Clinic of Mainz. Another advantage of SONTARA is that its special surface treatment is liquid-repellent. Consequently, surgeons and theatre staff are protected from germs transmitted through the blood. Moreover the use of SONTARA operating gowns and drapes means that 12 times fewer particles are released through linting than by conventional textiles. During surgery, such lint particles may act as a transmission medium for micro-organisms and result in infection. Non-wovens provide a higher standard of safety because they are less prone to damage during transit or washing which could put their sterility at risk. The use of SONTARA made it possible for instance, at the Duke University Medical Center in Durham, to reduce the post-operative infection rate from 6.51% to 2.83%. An increasing number of clinics in Europe are placing their trust in operating gowns and drapes made from SONTARA.

Sterile packaging made of TYVEK is tear- and puncture-resistant.

Tyvek for sterile packs.
TYVEK is a spunbonded material made from microscopically fine, endless polyethylene fibres. Its special properties make it ideal for sterile packaging: it is not only tear-and puncture-resistant, waterproof, lintfree and air permeable. Yet also an outstanding barrier to microbial penetration as demonstrated in a 5-year shelf-life test. Since the packs are heat-sealed, the high surface stability of TYVEK and specially formulated heat seal coatings assure a clean and easy opening.
At the same time TYVEK is perfectly suitable for gas or gamma-ray sterilization which always takes place after closure. TYVEK's structure prevents bacterial penetration but allows gases to enter easily and escape again quickly.
That is why leading manufacturers of medical equipment, Abbott, Baxter, Fresenius and Viggo-Spectramed, for example, use sterile TYVEK packs to protect their products.

Kevlar operating gloves protect surgeons.
For the same weight, the para-aramid fibre KEVLAR offers five times the tensile strength of steel, and is flexible and cut-resistant. This fibre has enabled the most amazing developments in a variety of fields. Now it is also in use for medical purposes. A special manufacturing process is able to produce seamless operating gloves from KEVLAR. They represent a significant safety factor in respect to pathogens, in that they help protect the surgeon from accidental cuts. Even a scalpel, if used normally, is unable to cut through them. The disposable gloves, packed in sterile conditions, are purpose-designed for surgical requirements. They are worn between two thin Latex gloves. Unlike other types, these KEVLAR surgical gloves offer an important advantage, because they are so soft and flexible they do not limit the surgeons's dexterity and skill. KEVLAR protective surgical gloves are already in widespread use in America. In addition to use by surgeons and their assistants, these gloves are also a valuable contribution towards the safety of dentists, accident and emergency personnel and to others in areas of risk.

Operating gloves made from KEVLAR reduce the risk of infection.

Innovations from Du Pont
SONTARA, TYVEK and KEVLAR are developments of Du Pont's Engineering Fiber Systems, as are NOMEX*, TEFLON*, TYPAR*, CORDURA*, ZEMDRAIN* and high tensile stength NYLON. These products never cease to create new potential in a variety of areas ranging from household applications to space travel. Du Pont is one of the leading research-oriented companies in the world; in Europe alone, it employs 21,000 people and has already invested DM 35 billion.

Du Pont de Nemours International S.A.
Engineering Fiber Systems
P.O. Box 50
CH-1218 Geneva, Switzerland

Du Pont Engineering Fiber Systems.
Develop with us.

*Du Pont's registered trademark

DU PONT

BUSINESS AND THE ENVIRONMENT

At loggerheads: Customs officers may have to find a way of distinguishing between "forest-friendly" timber and wood from unsustainable resources

Game of give and take

David Dodwell sees signs of closer co-operation between environmental groups and trade policymakers

Environmental lobby groups, so long at loggerheads with trade policymakers bent on liberalising international trade, have in recent weeks been drawn into an intimate embrace.

At meetings with staff of the General Agreement on Tariffs and Trade (Gatt), and last week with national delegations at the Organisation for Economic Co-operation and Development (OECD) in Paris, the groups have been provided with an unprecedented platform to voice their concerns.

Whether their arguments prove strong enough to moderate national policies on international trade rules has yet to be seen. They almost certainly come too late to have any direct impact on the outcome of the long-delayed Uruguay Round of world trade talks. But the fact that they have been drawn into the debate on reform of trade rules, rather than viewed by governments with a mixture of hostility and suspicion, is nevertheless significant.

By the time some 50 environmental and development campaigners sat down last week at a joint meeting of the OECD's trade and environment committees, they had honed a common position, focusing on six principal areas of concern:

- The need for internationally-agreed standards, particularly on food and farm products, to provide a floor from which environmental standards should rise, rather than a ceiling which governments can aim towards.

Indicative is concern over plans to harmonise the EC's "E-numbers" of permitted food additives. Ahead of harmonisation, the UK has a list of 300 approved additives. This compares with 150 in Germany and Greece, for example. After harmonisation, all EC member states will have a list of 411 approved additives – an alarming backward step, as far as environmentalists are concerned. The result is that food products that in the past have been barred from Germany because they include prohibited additives may now be freely imported.

- The need for the Multilateral Trade Organisation (MTO), a powerful new body proposed as part of the Uruguay round of trade reforms to oversee international trade, to give high and formal priority to environmental concerns and in particular sustainable development.
- The need for "pace-setting" governments keen to set environmental standards higher than the international norm to be free to do so. This includes a more controversial conviction that such pace-setters should have a right to act unilaterally in blocking imports from countries with lower standards or dirty industrial processes.

This worry strikes a chord with trade economists – so long as environmental standards are not being exploited by protectionist industries. For example, why should Sweden not be allowed to ban the import of goods containing CFCs if there is strong public pressure for the government to take a tough line, and sound scientific evidence to back the move?

But such unilateral powers would become more controversial if Austria and the Netherlands, for example, insisted that all timber imports be "forest friendly" – that is, the wood must come from forests that are being sustainably logged. The mind boggles as to how a customs officer is to distinguish "forest friendly" timber from other kinds.

- The need for industry to "internalise" the environmental cost of a product – ranging from electricity generators incorporating the true cost of treating nuclear waste to timber prices which include reimbursement to exporting countries for their loss of biodiversity.

While trade economists are beginning to come round to this argument, they have yet to find an agreed set of formulae for measuring the environmental cost to be internalised. They are also anxious that industries should not be allowed to use these costs as an excuse to call for duties on imports from countries that are not bearing higher environmental costs.

- The need for industrial countries to recognise that they bear the main responsibility for the cost of environmental improvement in poor countries – both because they have the wealth to afford it, and because they are the principal source of globe-threatening pollution. This involves considering schemes such as recycling cash raised through tariffs back to developing countries to improve their environment.

The debate appears to have reduced the chronic suspicion with which free-traders and environmentalists have glared at each other

- The need for international trade bodies to be more open and answerable. This would include not just the Gatt, but also organisations such as the Rome-based Codex Alimentarius, which sets international food standards.

Trade economists are alarmed by various implications of these proposals. Several proposals condone protectionism and make environmental lobbyists easy prey for industry groups anxious to keep foreign competitors at bay. Others are administratively unmanageable. Some confer on powerful governments a right to interfere in the affairs of less powerful countries.

Debate in the OECD and in the Gatt nevertheless appears to have made progress in paring down the areas of difference, and in helping either side to recognise the merits of the other's arguments. Not least it appears to have reduced the chronic suspicion with which free-traders and environmentalists have traditionally glared at each other.

Groups emerging from last week's OECD discussions say that some intractable areas remain – most significantly over a country's right to attack "process" standards, and to take environmental measures which interfere with another countries' sovereign right to set their own environmental priorities.

At a more general level, advocates of free trade are likely to remain irreconcilable with environmentalists over their fondness for regulation.

But it now appears possible that the Gatt will reconsider its draft proposals for the MTO, giving it a more explicit brief to take account of the need for trade to contribute to sustainable development, rather than trade growth on any terms.

Trade policymakers also appear ready to pay serious attention to building into the price of products their true environmental cost.

For their part, many environmental campaigners will continue to shun economic growth, arguing that the west's relentless quest for growth is a fundamental cause of environmental problems. Still more challenge the claim that growth – and the wealth it generates – will provide the resources needed to protect the environment.

But an increasing number appear to acknowledge that strong environmental policies are unlikely to grow out of weak or recession-ridden economies. Since trade liberalisation is powerfully linked with strong economic growth, so there is a clearer recognition that free trade need not be an adversary in the fight for higher environmental standards, but indeed could be an ally.

"There is no question that OECD delegates have become much more sensitised to environmental concerns," an OECD official said yesterday. She signalled that the next step would be to call a meeting between the OECD and industrial interests, probably in November. Beyond that, the ambition is to meet jointly with both environmentalists and industrial interests, probably early in 1993.

German industry snubs carbon tax

By Bronwen Maddox and Paul Needham

German business leaders attacked their government's support for a carbon tax at last week's German Environment Conference in Frankfurt, estimating that it could cost German industry DM 12bn-15bn (£4.7bn-£5.9bn) by 2000.

The German government has frequently made clear its support for proposals for a tax to help cut emissions of gases that could harm the atmosphere. At the Rio Earth Summit in June, Chancellor Helmut Kohl said he planned cuts of 25-30 per cent in carbon dioxide emissions by 2005 compared with 1987 levels.

However at a recent meeting of EC environment ministers at Gleneagles, Klaus Töpfer, the German environmental minister, said that a tax to help cut emissions of carbon dioxide "is absolutely necessary, and very soon" if Germany is to meet those targets. "It will be a hell of a job to get there," he added. "The German government is in favour of a tax, but many parts of German business are against it." The depth of that opposition was clear at Frankfurt, one of Europe's biggest environmental conferences, where industrialists and union leaders warned that a tax could cost German industry billions of D-Marks and destroy its competitiveness.

Klaus Töpfer: carbon tax 'absolutely necessary'

Roland Turowski, director of the energy department of the German Electricity Industry Federation, said: "I know Mr Töpfer's view and it is wrong. These are high costs which will be passed on to the consumer, DM 3bn-5bn a year and DM 12bn-15bn by 2000."

Dietrich Wittmeyer, energy spokesman for the German Chemical Industry Federation, also accused the government of being "too much fixed on the environment – they must also consider economic competitiveness".

Several industrialists instead favoured more investment in energy-efficient technology. Dieter Franke, environmental spokesman for the German automobile association, also recommended a price structure that favoured environmentally cleaner cars.

However, technological changes alone may not be enough to counter the rapidly rising level of emissions caused by modernisation of the former east German states, which Töpfer describes as a huge impediment to his plans.

Of the 1bn tonnes of carbon dioxide emitted by Germany each year, around a third comes from the former eastern states, although they have only a fifth of the combined population. That is partly because of their use of lignite fuel, a particularly dirty form of energy. The government also projects that the number of cars in east Germany will double to the west's level of one car for every two people. As well as the opposition of businesses, the German government must counter the ambivalence of many EC members about the form of such a tax. At Rio EC members gave their backing on the condition that a tax would not be implemented unless all 24 OECD countries agreed to it. Töpfer said – in what may be wishful thinking – that he hoped the EC could decouple tax proposals from this condition.

However, the German position has the full backing of EC environment commissioner Karel van Miert, who repeated his belief last week that "we need to go ahead with it". Because of the importance of transport policy in meeting the targets, Germany has been a vigorous supporter of van Miert, who is also EC transport minister.

Van Miert's appointment as environment minister lasts only until December but he recently said: "I would be happy to stay on after December, subject to the Belgian government's plans, and it is very probable that I will."

PEOPLE

Beckwith brothers stand down

John Beckwith (left) and Peter Beckwith, two of the best-known property developers in the UK, yesterday resigned from the board of London & Edinburgh Trust, the property company they created and sold at the peak of the market in 1990.

SPP, part of Trygg-Hansa, Scandinavia's largest insurance company, which bought LET for £491m, says the management changes have been made "to integrate the international property activities more closely with other investment and property operations of Trygg-Hansa SPP and to confirm the continuing commitment of SPP to its international property interests".

"It was natural that one day the existing management of LET and SPP would go their different ways," explains Anders Ek, the chairman of SPP's international property operations who has been appointed the new chairman of LET, as well as of its holding company and subsidiaries.

The sale of LET to SPP was seen as a personal coup for the Old Harrovian Beckwith brothers, whose personal holdings were valued at about £40m each. Conversely, SPP has not yet benefited from its acquisition of LET, which made a loss of £150.9m for 1991.

Peter Beckwith, chairman of LET, will leave the group, while John Beckwith will remain full-time with the group in Continental Europe. Stuart McDonald, joint chief executive of LET, will also leave the group.

Nicholas Sheehan, a former partner of Knight Frank & Rutley who is currently joint chief executive of LET, will become managing director of LET.

Ek says the changes would lead to a lesser emphasis on development. "As an institutional investor we feel that it is more within our corporate nature to focus towards property investment rather than development," says Ek.

The Beckwith brothers were associated with some of the most prominent developments in the UK, including the proposed Spitalfields development in the City of London and Birmingham's Bull Ring Centre.

Tom Roberts, deputy chief general manager of General Accident, is to retire at the end of November. One of the Perth-based company's stalwarts, Roberts has been with GA since 1953. Now 62, he worked his way up through the company's hierarchy, working in Newcastle, St Albans and finally at the head office in Perth where he became deputy chief general manager in 1989. Recently he has been closely involved in GA's work on road safety, winning a CBE for his services in this area in 1989. GA is not making a replacement for the moment.

MacSharry to join Smurfit

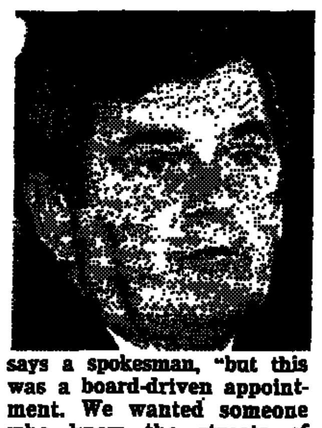
Ray MacSharry, EC agricultural commissioner, will be joining the board of paper, packaging and printing group Jefferson Smurfit, Ireland's largest company, as a non-executive director early next year following his departure from Brussels at the end of December.

Jack Lynch, prime minister of the Republic until 1979, and on the board of the company since then, is retiring aged 75.

MacSharry, who earned the nickname of "the second Cromwell" in his native Ireland because of farmers' fears for their countryside in the wake of CAP reform, has achieved the distinction of pushing through the most far-reaching changes in the Common Agricultural Policy in its 30-year history.

Twice a finance minister in Charles Haughey's cabinet, he was long tipped as the next Irish prime minister, but in the event he did not challenge Albert Reynolds and now says he wishes to withdraw from public life. Before entering parliament in 1969, he was involved in road haulage.

The company is keen to deny any close personal connections between him and its chairman Michael Smurfit. "Ireland is a small place and no doubt they have run into each other,"

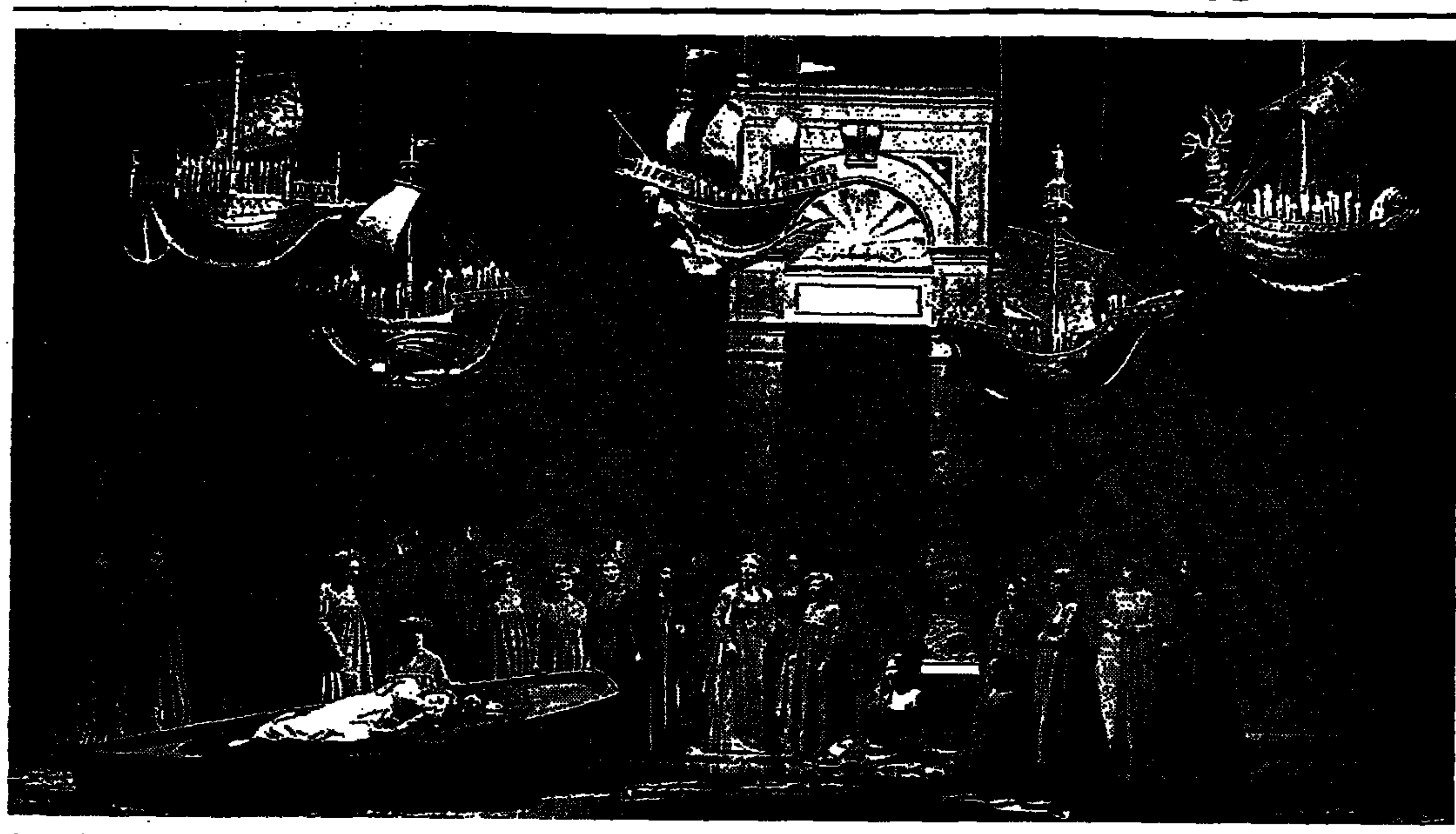


says a spokesman, "but this was a board-driven appointment. We wanted someone who knew the streets of Europe." Smurfit is keen to expand its presence in continental Europe and it also thinks MacSharry's advice will be valuable in helping deal with the flood of "green" legislation from Brussels.

William MacDonald, 74, a former company secretary, is also stepping down from the board. Meanwhile, Martin Rafferty, chairman of Dublin pharmaceuticals distributor United Drug, joins as a non-executive director and as the first chairman of the newly formed audit committee. The most financially experienced non-executive director, according to the company, he is also chairman of Ulster Investment Bank, the Industrial Development Authority, and Readymix, as well as being a director of Aer Lingus, Ulster Bank and Church & General Insurance Company.

Bodies politic

- George McKechnie, editor of the Glasgow Evening Times, and Keith Parker, editor of the Wolverhampton Express and Star, have been appointed members of the PRESS COMPLAINTS COMMISSION.
- Morny Davison, James Joll, finance director of Pearson, Graham McCallum, a director of the Japan Festival Fund, and Cob Stenham, chairman of Arjo Wiggins Appleton, have been appointed trustees of the DESIGN MUSEUM.
- Derek Childs, md of Dryvit Systems (UK), has been appointed chairman of the EXTERNAL WALL INSULATION ASSOCIATION.
- Sir David Scholey, chairman of S G Warburg, has been appointed a trustee of the NATIONAL PORTRAIT GALLERY.
- Kit Farrow is to become director general of the BRITISH MERCHANT BANKING AND SECURITIES HOUSES ASSOCIATION when Robin Hutton retires.
- The Hon Jeremy Deedes, executive editor of the Daily Telegraph, has been appointed a member of the HORSERACE TOTALISATOR BOARD.
- Lord Cavendish of Furness, chairman of the Holker Group of Companies, Bridget Cherry, editor of Buildings of England, and Julian Seymour, formerly finance director of the Lowe Group and currently the director of Lady Thatcher's private office, have been appointed commissioners of ENGLISH HERITAGE.



Psychologically perceptive: Francesca Zambello's staging of Bellini's 'Il Pirata' for the Zurich Opera House

Opera in Zurich and London

'Il Pirata' and 'Fidelio'

Like two lovers who don't speak the same language, German-speaking Europe has long been fascinated by *bel canto* opera without being able to make much sense of it: you either get some disastrously way-out form of *Regietheater*, or a bland pictorial reproduction by an imported Italian director. It seems to be only non-partisan outsiders who can pull off the marriage between German logic on the one hand, and Latin warmth and spontaneity on the other. This is what distinguishes the new staging by the American producer Francesca Zambello of Bellini's *Il Pirata* at the Zurich Opera House.

Il Pirata was Bellini's first commission for La Scala (1827), the first of his collaborations with the librettist Felice Romani and one of the first Italian operas to dispense with *recitativo secco* in favour of the continuous Romantic style of composition. As with any successful revival, one is left wondering why it has been left to languish so long (Callas in the 1950s and Caballé in the 1960s being its last great exponents). *Il Pirata* rewards the listener with some of the most sublime melodies Bellini ever wrote. At first sight, its dramatic ingredients are not far off the romantic stereotype: Imogene, married to Ernesto, loves the pirate-nobleman Gualtiero, Ernesto's political rival, and ends up with neither. But look beneath the surface, and you find what Edward Dent recognised more than 50 years ago as "a stimulating exercise in emotional analysis".

In her emblematic, psychologically-perceptive staging, Zambello sees Imogene as a universal archetype – the woman whose dutiful marriage and Hausfrau existence preclude any sort of romantic fulfilment except in day-dreams. Imogene dreams of Gualtiero, symbolised by the miniature galleon which she cradles as the curtain opens on Act one, and which the designer Bruno Schwengl turns into a motif for the whole production. He bathes the stage in Mediterranean colours, adding little more than a gauze, a drop cloth and a few nautical props. In her direction of the principals, Zambello accepted the conventions of Italian opera, but encouraged the singers to substitute emotional poise for melodrama. Only in Ernesto's arrival-scene – dominated by a golden horse and a posse of pink-plumed guards – did the production dissolve into kitsch.

But however well they fare as theatre, Bellini's operas stand or fall on the quality of the singing. The main audience draw in Zurich was Mara Zampieri, who met the technical challenges without disguising a breathy, effortful quality in her voice production. Imogene is no Minnie or *Forza* Leonora: for all her stage presence, Zampieri lacks the sparkling clarity and tonal delicacy for Bellini.

The real vocal sparks came from Salvatore Fisichella, an underrated Sicilian tenor who regularly reserves his best for Switzerland. With his sweet and open tone, clear diction and clarion despatch, he glided over the numerous hurdles in Gualtiero's high-lying music. The American baritone Rodney Gilfrey, much admired in French opera and Mozart, made an unhappy Ernesto, Pythonesque in his ceremonial armour and vocally ill-at-ease.

The mainstay of Zurich's Italian repertoire is Nello Santi, whose performances are always scrupulously prepared and executed, if sometimes marred by a strictness more appropriate to a bandmaster. *Il Pirata* found him in sensitive form, shaping the music tenderly and drawing exquisite solo contributions from horn and cor anglais.

Andrew Clark

The drab staging of *Fidelio* by Adolf Dresen has been brought back to Covent Garden two seasons after it was introduced. The revival has been directed by Astrid Vehstedt with a largely new set of principals; only Gabriela Benacková returns in the title role. Jeffrey Tate is the conductor.

Dresen's reworking of the text, with significantly tightened dialogue, has been retained. It shortens the running time, but is otherwise not beneficial, and the question of why it was thought necessary in the first place is never answered. The whole effect, indeed, is of a production without purpose; one waits in vain for enlightenment to arrive, for a reason other than decorative reference in Margit Bardy's designs for the slight updating of the story, for a dramatic spark to set the moral fable ablaze rather than reduce it to an everyday narrative.

Given thrilling performances the very neutrality of such a setting might have been a bonus, an unobtrusive backdrop to the musical drama. On Monday there were no thrills. Though much of the singing was more than competent, Tate's conducting was leaden and lacked any sense of scale or fervour; it is almost an achievement in itself to make the Prisoners' Chorus as matter-of-fact as it was here, or fail so completely to strike sparks from the Act 2 finale. Elsewhere ensemble was sometimes tenuous, but then few of the musical components cohered.

Benacková produced some gleaming phrases, but not enough to create the combination of moral certainty and moving commitment at the core of Leonore; the heroic dimension was missing. There was a useful clean-toned Rocco, complete with limp, from Günter Missenhardt, an underpowered (though reportedly under-the-weather) Pizzarro from Gregory Yurisch. Lynton Artkinson's fresh Jacquino and Judith Howarth's lively Marzelline provided the brightest playing; Thomas Sunnegardh's Florestan swamped a few well-turned mid-register phrases with some extraordinary squalls and wild pitching above the stave. An unsatisfactory evening almost all round.

Andrew Clements

Royal Opera House, Covent Garden; further performances October 1, 7, 10, 13 and 17.

New York Theatre/**Karen Fricker**

The Comedy of Errors

"Nothing succeeds like excess?" Maybe not. The New York Shakespeare Festival's production of *The Comedy of Errors* prompts a qualifying of Oscar Wilde's dictum which, quoted in a programme note, was clearly its inspiration. It's excess is excessive, and rarely successful.

The temptation to gussy up *The Comedy of Errors* with lots of onstage business, as director Caca Rosset has done here, is understandable. It is, after all, the simplest of Shakespeare's plots: the Antipholus twins, separated at birth and unaware of each other's existence, show up in the same city with their twin servants, both named Dromio, and are mistaken for each other again and again.

Rosset has made his one-joke wonder of a script into a sight-gag-aholics dream: no mugging is too shameless, no shot too cheap (yes, there's even a "Dromio, Dromio" called down from a balcony window) to end up on Rosset's stage. The problem is that much of the business is sloppily executed, and what is supposed to be wackily funny often comes off as cringingly silly.

Rosset's frantic staging does pay off with a few sublimely off-centre moments. *Vide* Karla Burns, built like the Tasmanian Devil and possessed of a similar energy, who bursts on stage and hurls herself into a gut-wrenching gospel anthem. That we have never seen this character before nor know what she is doing are concerns that are drowned out by Burns' mighty talent (as it transpires, she is Nell the maid.) And the production takes on a wonderfully self-aware tone when, at a particularly frenzied moment, Antipholus of Syracuse calls a time-out American-style, hands forming a "T" over his head, freezing the onstage action and bringing up the house lights, so that he can express his confusion directly to the audience.

The Shakespeare Festival continues to cultivate its bad reputation for casting media stars regardless of their skills in speaking verse; Marisa Tomei's *(My Cousin Vinny)*, Adriana substitutes shouting and gestures for interpreting the text. There are a few gems among the other performances, particularly John Michael Higgins' *Antipholus of Ephesus* and the Dromii, Peter Jacobson and Howard Samuelsohn.

Whatever this production's indulgences, Free Shakespeare in the Park continues to be one of New York's most beloved summer traditions. That Joe Papp's dream of a public theatre lives on after his death last year is a fact that gives pleasure long after the bad-joke hangover from this Comedy has faded.

Prix Italia Broadcasting Festival/**Christopher Dunkley**

Filled with foreboding about the future

If the Prix Italia broadcasting festival is anything to go by, and experience suggests it is, radio and television are in a greater state of change and confusion in all parts of the world today than ever in the history of these two relatively young mass media. When this festival began as a radio event in Capri in 1948 television was little more than a technical trick used by a few broadcasters to provide illustrations for radio programmes. Today television is so inextricably bound up with cultural identity and political power that its fortunes lie at the very heart of the apocalyptic changes occurring in eastern Europe, and the shift in western Europe from public service broadcasting to market driven systems is causing deep anxiety, at least among programme makers.

Not that a newcomer to broadcasting would have divined this from the programmes on offer in the viewing and listening rooms of the shabbily splendid Palazzo di Colorno, just outside Parma. Not immediately, anyway. The autumn sunlight across the valley of the Po caught the occasional flake of paint, drifting down from the wall paintings commissioned by Napoleon's wife, Marie-Louise, past television screens showing programmes which, to old Italia hands, looked remarkably familiar.

True, old age has suddenly emerged as a dominant subject in documentaries throughout the industrialised world. True, the suffering and saintliness of women occupies more time than ever in drama from Croatia (*Sestre*, about the love between two sisters) to Japan (*Shinenai Tori*, about a woman's search for dignity) and the UK (*Prime Suspect*, about a woman who chooses to do a more-than-full-time job in the police force and the shopping as well and then exercises her female prerogative and complains that she has no time). True, programmes in the music and arts category, so often over-long in the past; seem abnormally – and, at a festival of this sort, mercifully – short this year.

But such changes scarcely seem to support the belief, shared by so many of the 900 people here to serve on juries, join in debates, or simply observe (well, yes, and to enjoy the Parma ham and the Verdi concerts) that broadcasting is about to plunge into a new age of ratings obsessed vulgarity. Most newcomers spending 10 days assiduously watching programmes for eight or nine hours a day, either in the viewing rooms or in the even more heavily used "On Demand" cubicles, such a feature of television festivals since the appearance of the video recorder, would probably have come away heartened.

Of course the Prix Italia is an event which studiously excludes the material forming the bulk of most television schedules: there are no game shows, sitcoms, chat shows, sport or news programmes here. However, even in the three prize categories – drama, documentaries and arts – you might expect to find evidence of popularisation and trivialisation if the descent into the commercial maw is really as swift and precipitous as many in Parma were asserting.

On the surface there seems little sign. The winner of the television arts prize, *Anton Webern*, from La Sept in France, is a relentlessly superior visual tone poem (in monochrome, naturally) which airily ignores the benefits of speech, providing no presenter, voice-over, or commentary of any sort. It can be properly comprehended only by those already well up on Webern – Prix Italia jurors for instance. Here is the face of old fashioned broadcasting at its most supercilious. Television is a mass medium? So what?

ITV's entry in this category, the "South Bank Show" on *The Making Of Sgt Pepper* was considered unremarkable; the sort of programme, said the jury, which a good broadcasting organisation ought to be making every week. Only the Russian juror wanted to give it a prize, on the grounds that, if screened in Russia, it would get the highest ratings ever.

According to the president of the RAI, television is banal, repetitive and in retreat

The drama prize went to another French entry, *La Controverse de Valladolid*, a deeply worthy 16th century ecclesiastical courtroom drama about a post-Columbus debate among Catholics as to whether black people were men with souls or merely clever animals. In television terms it was less than remarkable but no one could deny its political correctness. The BBC won the documentary prize with a programme from the "Video Diaries" series, *War, Lives and Videotape* in which Nick Danziger recorded his own efforts to find a home for orphans in Kabul, and incidentally dwelled lengthily on wounded children screaming in hospital.

Apart from the topicality of Danziger's piece, none of the prize winners would have looked out of place at any Prix Italia in the last 20 years. So why the neurosis? Where is the crisis? So far it may be concealed but it is no fantasy. Even at this old, deeply civilised festival, the evidence is there, albeit under the surface.

Speak to the producers and you find that the arts entries are shorter this year because everywhere arts budgets are under attack. Arts programmes (apart from "unremarkable" productions such as the "South Bank Show") don't win ratings. Think carefully about the dramas and you realise that a category dominated not so long ago by single plays, usually on serious social or political themes, now features a remarkable array of detectives and a growing number of episodes from serials or mini-series.

Look at the very organisation of the festival itself and you discover that one of the chief reasons for coming here year after year – the integrity of the prize system, achieved by allowing a company to enter either a programme or a juror in a given category but never both – has been torpedoed this year. Why? Because co-production is said to be so widespread that it was becoming impossible to enforce the old rule, in television if not radio. Thus the Prix Italia itself is falling victim to the globalisation of television. Even if people did not actually give prizes to their own programmes, there was a significant tendency this year for programmes from the jurors' own companies to reach the shortlist. How could one juror vote another's off the shortlist?

Above all the evidence comes from the knowledge of the broadcasters and journalists gathered in Parma. The eastern Europeans tell you that the ex-communist societies do not want to switch to public service broadcasting with its collectivist, even statist overtones; too much like a chip off the old block. They want to go straight to the commercial marketplace. Even a buffer state such as Finland is shifting on January 1 1993 from its present system of running some commercial content on the public service channels to a mixed system with an entire channel for commercial broadcasting and the old public service people left to fill far more time with no more money.

The French are gloomy about changes which have already occurred in France and more pessimistic still about non-commercial broadcasting in the future. During the course of the Prix Italia Padulla, the president of RAI, Italy's equivalent of the BBC, labelled television banal, repetitive, and in retreat. And of course it was impossible to find a British broadcaster in Parma who was not filled with foreboding about the changes beginning in the UK next January. The virtual unanimity of the belief that the new market-driven ITV, red in tooth and claw, will drive down British programme standards is unique in my experience of reporting on the industry over the past 25 years.

That reporting has included coverage of previous Prix Italia festivals where public service broadcasters have felt under threat. This occasion, the 44th, is the first where there has been serious talk of the Prix Italia itself coming to an end because the broadcasting world in which it existed now seems to have the glow of sunset upon it. How ironic if the Prix Italia were to end as it began: as a select festival for high quality radio programmes.

CORRECTION

In Tuesday's Business Books Review, an incorrect book title appeared in the review headlined "The Confucian way to excellence" on page 10. The book reviewed is *How Chinese Managers Learn*, by Malcolm Warner (Macmillan, £40, 211 pages).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERTS
Tonight at 20.15 in the Concertgebouw, Riccardo Chailly conducts Royal Concertgebouw Orchestra in works by Rossini, Beethoven and Franck, with piano soloist Martha Argerich. Repeated tomorrow, Fri and Sun afternoon. Sat afternoon: Claus Peter Flor conducts the *Rotterdam Philharmonic* Orchestra in works by Janacek, Shostakovich and Mendelssohn. Sat evening: *Vassili Sinaiski* conducts the Netherlands Philharmonic in works by Gershwin and Tchaikovsky. Next Wed: Jiri Belohlavek conducts the Czech Philharmonic. Oct 18: Alfred Brendel. Oct 21: Julian Bream. Oct 23: Mariss Jansons conducts the St Petersburg Philharmonic. Oct 29: Jessye Norman. Tomorrow and Sat in Kleine Zaal: Shostakovich Quartet. Fri: Domus Piano Quartet (6718 345)
OPERA/BALLET
On Sun at the Muziektheater, the Netherlands Opera revives its production of Offenbach's Les brigands, with a cast including *Michel Senechal*, Ryland Davies and Jules Bastin (eleven performances till 28 Oct). Oct 10: *Dutch National Ballet gives* the first of 15 performances of Peter Wright's production of Sleeping Beauty (6255 455)

■ FLORENCE

Teatro Communale 21.00 Stanislav Skrowaczewski conducts orchestral works by Ives, Dvořák, Prokofiev and Ravel (repeated *tomorrow, Fri and* Sun). The Teatro Communale's concert programme runs till December. There will also be a production of Coppelia, choreographed by Evgeny Polyakov, from Nov 25 to Dec 11 (277 9236)

■ GENEVA

Victoria Hall 20.30 Armin Jordan conducts the Orchestre de la Suisse Romande in works by *Haydn and Britten, with tenor* soloist Robert Tear (311 2511)
Théâtre de Carouge 20.15 *Molière's L'Ecole des Femmes*, daily except Mon till Oct 11 (343 4343)

■ THE HAGUE

Dr Anton Philipszaal Reinbert de Leeuw conducts the Schoenberg Ensemble in tonight's concert of works by Scriabin, Wagenaar, Knaifel and Oestvolskaja. Tomorrow, Fri and Sun afternoon: Gunther Herbig conducts the Hague Philharmonic Orchestra in works by Mozart and Tchaikovsky. There is also a lunch concert tomorrow at 12.30. Oct 8 and 9: Herbig conducts Strauss' Alpine *Symphony (360 9810)*
Danstheater Choreographies by Jiri Kylian and Hans van Manen can be seen in a Nederlands Dans Theater programme on Sat, also at Arnhem tomorrow and Gouda on Fri (360 4930)

■ MILAN

Riccardo Muti conducts an *orchestral programme at the* Teatro alla Scala tomorrow, Fri and Sat. Thomas Hampson gives a song *recital* on Sun. Alfred Brendel gives a Beethoven recital on Mon. Oct 12-22: daily performances of Cristoforo Colombo, ballet choreographed by Alberto Mendez with music by Donizetti. Don Carlo, conducted by Muti and staged by Franco Zeffirelli, opens the opera season on Dec 7, with a cast led by Luciano Pavarotti *(7200 3744)*

■ MUNICH

OPERA
The Bavarian State Opera is giving concert performances for most of this season while repairs are carried out to the hydraulics system at the National Theater. Tonight in the Prinzregententheater, Adam Fischer conducts a concert performance of Un ballo in maschera, with Sharon Sweet, Lando Bartolini, Claire Powell and Wolfgang Brendel. Fri: Wolfgang Sawallisch conducts Don Giovanni. Sat: Carmen. Oct 9: Dvořák's Dimitrij. Oct 11, 17, 21: Verdi's Otello (221316)
CONCERTS
Tomorrow and Fri at Gasteig: Yuri Ahronovich conducts the Bavarian Radio Symphony Orchestra in works by Henze, Mozart and Scriabin, with piano soloist Christian Zacharias (48098 614). Wolfgang Sawallisch conducts a Richard Strauss *programme, including the Four* Last Songs (Julia Varady), on Sun morning, Mon and Tues in *the Herkulessaal der Residenz* (221316)
● A selection of theatre and concert tickets is available at Konzertkasse Beck on the fourth floor of the Beck department store at Marienplatz 11

■ NEW YORK

MUSIC
Carnegie Hall 19.30 Lorin Maazel conducts the Pittsburgh Symphony Orchestra in an *all-Tchaikovsky programme, with* cello soloist Yo Yo Ma. Tomorrow: Maazel conducts *Fidelio (247 7800). Tomorrow,* Fri and Sat in Avery Fisher Hall: Kurt Masur conducts the New *York Philharmonic (875 5030)*
Metropolitan Opera 20.00 Un ballo in maschera with Aprile Millo and Richard Leech. Tomorrow: Madama Butterfly. Fri: Les Contes d'Hoffmann (362 6000)
State Theater 20.00 City Opera production of Cav and Pag. Fri: The Desert Song. Sat: Die Zauberflote (870 5570)
THEATRE
● Crazy for You: loosely based *on Girl Crazy (1930), this is a* celebration of the music of George Gershwin and the lyrics *of his brother Ira - 19 songs in* all - and also of the choreography of Susan Stroman (Shubert, 225 *West 44th St, 239 6200).*
● Irish Repertory Theatre Company: Vincent and Chris O'Neill, two Dublin-born brothers, give a show entitled Frankly Brendan, based on the works of Brendan Behan and Frank O'Connor (Actors' Playhouse, *100 Seventh Ave S, 691 6226).*
● Jean Cocteau Repertory: Dylan Thomas' Under Milk Wood is being shown in repertory with An Old Actress in the Role of Dostoievsky's Wife, by Russian playwright Edvard Radzinsky (Bouwerie Lane Theatre, 330 Bowery at Bond St, 677 0060).
● Jelly's Last Jam: the music of Jelly Roll Morton, self-proclaimed inventor of jazz, combined with a portrait of the man himself (Virginia, 245 West *52nd St, 239 6200).*
● Conversations with My Father: Herb Gardner's *bitter-sweet memory play about* a Lower East Side barkeeper, his two sons and the patrons of *his tavern (Royale, 242 West 45th* St, 239 6200).
● The Real Inspector Hound and The Fifteen Minute Hamlet: Tom Stoppard's play about a pair of drama critics who attend a performance of a traditional British thriller, preceded by a prologue of gems from Shakespeare's play. Closes on Sun (Criterion Center, Broadway at 45th St, 869 8400).
● Ticketmaster answers *inquiries and sells tickets for* Broadway shows (307 4100) and rock/pop concerts (307 7171)

■ STOCKHOLM

OPERA/BALLET
Tonight's performance at the Royal Opera is Simon Boccanegra. Tomorrow and Fri: John Neumeier's ballet A Midsummer Night's Dream. Sat: concert performance of Mazeppa. Mon: Ingvar Lidholm's new *Strindberg opera A Dream Play.* Oct 13-17: Finnish National Opera (248240)
CONCERTS
Sixten Ehrling conducts this week's Stockholm Philharmonic concerts at the Konserthuset. Tonight and tomorrow's programme includes William Schuman's New England Triptych. (244130)

■ STUTTGART

LUDWIGSBURG FESTIVAL
The final week of this year's festival includes a piano recital by *Murray Perahia tonight and* a concert performance on Sun of Verdi's I Masnadieri *(7141-949610)*
STAATSTHEATER
The current repertory includes Ariadne auf Naxos (tomorrow and Sun), Marcia Haydee's production of Giselle (Fri, Sat, Mon) and a Bejart triple bill (next Tues, Fri and Sat). A new production of Luigi Nono's Intolleranza 1960 opens on Oct 11 (221795)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly in-depth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media *business*
2130-2200 (Wed) FT Business Weekly - global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Wednesday September 30 1992

Rebuilding the Labour party

IN A healthy democracy a principal opposition party has two functions. Its day-to-day duty is to harry the government, challenge its proposals, expose its shortcomings, make parliamentary life difficult; in short, to oppose. Its longer-term reason for existence is to stand ready as an alternative government, thus providing the electorate with a choice when the term of the administration currently in office expires.

Less than six months after its shattering defeat in the April election the British Labour party is beginning to look as if, a summer of disappointment behind it, it is ready to fulfil the first of these purposes. It is well prepared to make a thumping nuisance of itself. Its new leader, Mr John Smith, displayed his reknowned forensic skills in a blistering attack on the prime minister in the House of Commons last week. Where Mrs Margaret Thatcher towered over Mr Neil Kinnock, and the latter was at best evenly matched with Mr John Major, it is the Labour leader who now commands the House and the prime minister who must strive for its full attention. It is Mr Smith who can proclaim, without qualification, that it has always been his firm conviction that Britain's future lies in Europe; and Mr Major who must twist and turn.

Open stage

A parliament in which the government's majority is slender and the governing party divided presents a strongly led opposition with an open stage. It is Labour's good fortune that in Mr Smith it has a leader whose ability to perform upon such a platform is unquestioned. The degree to which victories in the cut and thrust of Commons debate impinge upon the consciousness of the general public is unpredictable, but it is reasonable to assume that a long period in which the leader of the opposition shows up well in the House will have a beneficial effect upon the standing of his party.

Mr Smith is also in a position to demonstrate that he leads a united force, again in contrast to the hapless Mr Major. At the Labour conference this week Mr Smith's closest colleagues won positions on the executive committee, while his strongest opponents lost out. Unlike many previous Labour leaders, he and his allies dominate both the party machine and the shadow cabinet. Labour is Mr Smith's to take in a direction of his choice. In his first conference speech as leader yesterday he proclaimed that the route he favours is towards electoral victory.

Creditable passion

There is much for Labour to do if it is to have a hope of reaching that destination. It must cut its formal links with the trade unions; Mr Smith was equivocal about that. It must find a way of expressing itself that allays the fears of those who believe that Labour will impoverish them. Then a set of policies to improve people's lives must be selected and this must look better than the government's. Mr Smith has hardly had time to commence this large task so it is not surprising that yesterday's speech amounted to an interim repackaging of the manifesto upon which the last election was lost.

Its central feature was an affirmation of the party's belief in "active government", a phrase which, if it means anything different from old-fashioned interventionism, was not explained. "Active government", it appears, would provide better housing, training, education and environmental protection, an "efficient and caring" health service, a fairer system of industrial relations, a minimum wage, constitutional reform, positive discrimination, help for working mothers and the rescue of the coal industry. It would also, no doubt, implement such recommendations as emerge from Mr Smith's "special commission on social justice". The latter reflects his creditable passion for meeting the needs of the worse-off section of society.

This not unfamiliar menu certainly presents voters with a choice. The Conservative aim is to decrease the remit of government; Labour's unashamedly to extend it. No one could pretend that the Tory endeavour has been wholly successful, but that is not in itself an argument for the "active" alternative. What Mr Smith needs to explain is why officials can do better than private individuals – and, indeed, what guarantee there is that more government will not merely make matters worse. It certainly did in the 1970s.

The cost of peacekeeping

MR BOUTROS Boutros Ghali, the UN secretary-general, should be feeling a good deal happier this week than he was last July. Then his term of office seemed to be turning sour. An Agenda for Peace, the report on conflict prevention and peacekeeping he submitted in June at the Security Council's request, had been either ignored or unofficially rubbished by the council's permanent members. And he himself had got into an unseemly wrangle with the Europeans over the management of the conflict in Bosnia-Hercegovina. He complained that the EC had negotiated a handover of heavy weapons to the UN without consulting the UN itself, and accused rich nations of starving the UN of funds, yet expecting it to use a disproportionate share of its resources on conflicts in their own part of the world – at the expense, for example, of Somalia.

Since then, the EC and UN peace efforts in Bosnia have merged, under the apparently harmonious co-chairmanship of Lord Owen and Mr Cyrus Vance. The UN force there has been increased, with EC member states providing troops at their own expense. A force has also been sent to Somalia to protect the distributors of food. And last week, in the new session of the General Assembly, several of the permanent members had encouraging things to say about Agenda for Peace.

Election gimmick

President George Bush suggested a special Security Council meeting to discuss the report and "develop concrete responses". That was widely seen as an election gimmick, but at least Mr Bush accepted the idea that member states should train military units specially for peacekeeping and humanitarian duties and keep them available on short notice for the secretary-general's use. He also spoke of co-ordinated command and control, multinational training exercises, logistical support, stockpiles of resources, intelligence capabilities and "adequate, equitable financing".

The last point is a very sore one. Demand for UN peacekeeping operations (PKOs) has been expanding rapidly, and the total cost will soon reach $2.7bn a year. The five permanent members are supposed to pay most of the cost, but the US is currently $209m in arrears and Russia – whose foreign minister declared his support for Mr Bush's proposals – $282m. By "equitable" Mr Bush no doubt meant that others should pay more, though he did say the US would "review how we fund peacekeeping and explore new ways to ensure adequate American financial support".

Think differently

"I do believe," he added somewhat plaintively, "that we must think differently about how we ensure and pay for our security in this new era." The remark may have been addressed partly to the US Congress. If so, not too much should be expected, given Mr Bush's track record of reaching agreement with that body.

Japan is already footing the bill for the Cambodia operation, in addition to paying 12.5 per cent of the UN's regular budget – roughly equivalent to the combined shares of three of the permanent members: Britain, France and China. This fact was recalled yet again in his speech to the Assembly by Mr Michio Watanabe, the Japanese foreign minister, who suggested "serious" reform of the Security Council in time for the UN's 50th birthday in 1995. He was joined by his German colleague, Mr Klaus Kinkel, who asserted that debate on Security Council reform was already under way. "Germany will not take the initiative in this respect," he said. But "if a change in the council's membership is actually considered we, too, shall seek a permanent seat".

Such remarks provoke irritation among the existing permanent members, ill masked by an indulgent smile. They tend to respond complacently that it will be very difficult to agree on any new composition of the Security Council, and that Germany and Japan have yet to show themselves up to the responsibility of permanent membership. But Japan has already amended its constitution and begun to contribute to PKOs, while Germany is preparing to do the same. It seems unlikely they will go on increasing their share in the costs of the organisation indefinitely, unless their great power status is recognised.

Martin Wolf unravels the events behind the collapse of UK economic policy

From delusion to devaluation

"The exchange rate mechanism will reinforce our counterinflationary policies, help to provide the stability and certainty that industry needs, and set the right framework for a resumption of soundly-based and non-inflationary growth."
John Major, House of Commons, October 15 1990.

"I do not see that we could readily return to the mechanism without dealing with the problems that have been thrown up in the past fortnight. These need careful examination and consideration before we can decide whether such a mechanism can be made to work to the benefit of all its members."
John Major, House of Commons, September 24 1992.

What a difference two years make. Hopes were high when Mr Major put sterling into the exchange rate mechanism (ERM) on October 5 1990. Hopes collapsed when sterling was pushed out of the ERM on September 16 1992. The entry was abrupt, the exit no less so.

The ERM has run like a black thread through the garment of British politics. It precipitated the resignations from Margaret Thatcher's government of Geoffrey Howe and Nigel Lawson. It helped bring Mrs Thatcher down. Now it has devastated Mr Major, the chancellor who took sterling in and the prime minister who saw sterling forced out.

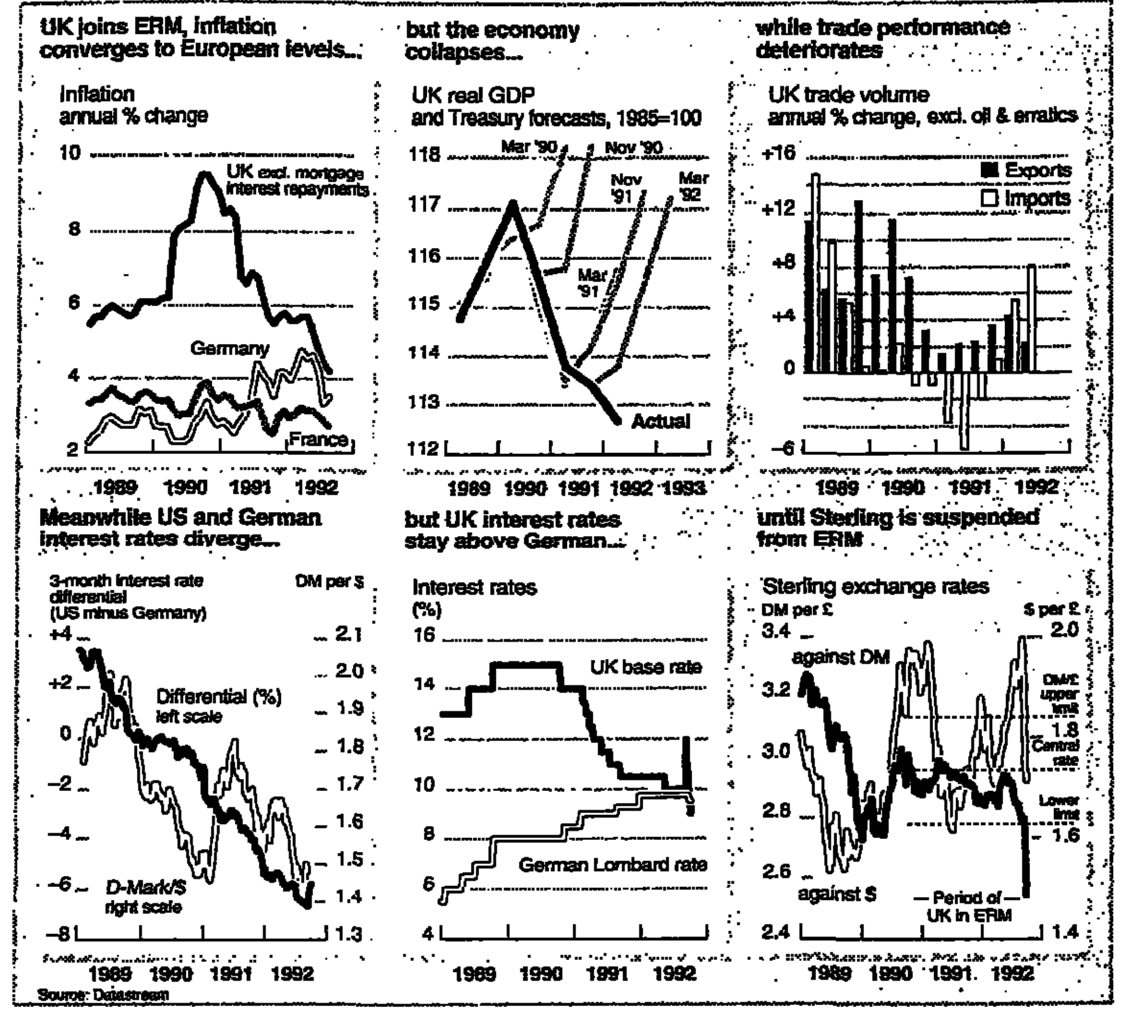
It is difficult now to recall the strength of the consensus in favour of ERM entry. There was the odd malcontent: Sir Alan Walters, for example. The then prime minister, Mrs Margaret Thatcher, was undoubtedly among them. But she was too enfeebled to resist a policy she had alway disliked.

Those involved in foreign policy supported ERM entry because it represented a commitment to the UK's European future. People in business supported entry because it would provide exchange rate stability. Those responsible for economic policy supported the ERM because it would, they hoped, end a series of policy disasters.

Several influential policymakers – Nigel Lawson among them – regarded the targeting of broad money as the god that had failed. From the mid-1980s onwards, they judged the exchange rate to be the best monetary indicator. This judgment was largely determined by the experience of falling inflation and a soaring exchange rate in the early 1980s, despite rapid growth of the broad money aggregates. In the autumn of 1985, Mr Lawson made an effort, then blocked by Mrs Thatcher, to obtain ERM entry at the exchange rate of about DM 3.75.

Meanwhile, several senior officials in the Treasury and the Bank of England viewed the ERM as no more than a second-best method of running monetary policy. But Mr Lawson's erratic monetary policies convinced officials that a first-rate monetary policy – one run by themselves – would never be allowed to happen. Along with many others, they concluded that monetary policy was far too important to be entrusted to politicians.

Just as there was an official view on why it was necessary to enter the ERM, there is also a view in the Treasury and the Bank of England on why sterling was forced out. The view is not identical to that of the prime minister and chancellor, who have focused their excuses on the allegedly unexpected events of recent weeks and their fervent complaints on the unhelpful behaviour of the Germans. The official view is more subtle. Their story goes roughly as follows.



The timing of entry was not ideal, nor was the 1 percentage point interest rate cut that accompanied it. But both were dictated by political realities. In particular, entry could only come after the prime minister and the chancellor had both agreed to it. It also could come only when the conditions set at the Madrid summit of June 1988, which had demanded prior convergence of UK inflation on the EC average, could be plausibly reset in terms of prospective inflation. Finally, it was judged imperative for entry to come before the start of the EC's intergovernmental conferences on monetary and political union.

Notwithstanding the long-delayed entry, the first year to 18 months of ERM entry went well. Sterling remained close to its central rate. Interest rates were brought down steadily, from a base rate of 15 per cent on the eve of entry to 10½ per cent in September 1991. The rate was cut still further, to 10 per cent, in May 1992. Meanwhile, inflation – the lodestar of policy – was falling more rapidly than forecast.

Unfortunately, the better-than-expected performance on inflation reflected the worse-than-forecast performance of the economy. In the first half of 1992 it was becoming obvious, even to the government, that a severe conflict was emerging between the monetary policy required by ERM membership and that needed by the domestic economy. The "green shoots" of recovery were withering in the Bundesbank's monetary winter.

The unexpectedly weak performance of the UK economy was only one of three things that went wrong. The other two were the high interest rates that were the Bundesbank's response to the inflationary consequences of German unification and the failure of the US economy to show its long-awaited recovery.

It was not what the German and US economies were doing individually that mattered so much. What mattered more was the combination of the two. By autumn 1992, the UK was suffering from a $2 pound, even though the rate against the D-Mark was near its floor, from short-term real interest rates at near unprecedented levels for a recession, and from a weak world economy.

With stagnation in the UK economy, the public sector borrowing requirement rising towards 6 per cent of gross domestic product and bound to go higher, and a current account deficit of 2 per cent of GDP in the midst of recession, something had to give. In the end, it was sterling's place in the ERM.

There were alternatives, at least in theory. The US authorities might have promoted domestic recovery more successfully. The German government might have taken more drastic action to put its fiscal house in order. The Bundesbank might have been persuaded to ignore the German monetary data. The French might have agreed to a realignment, one that might, in turn, have persuaded the Bundesbank to lower German interest rates. But none of these things happened.

Alternatively, sterling might have been realigned, either on its own or with the lira. But since officials at the Treasury and Bank of England believed neither that sterling was overvalued against European currencies nor that a partial realignment of the ERM would lead to significantly lower German interest rates, this option looked pointless to them. It seemed necessary to soldier on, instead, at least until after the French referendum on the Maastricht treaty.

It was understood that the French referendum would make the more doubtful of the ERM parities difficult to preserve. In the event, the failure of central bank intervention to reverse the weakness of the dollar in late August, followed not long after by the risky and ultimately unsuccessful 7 per cent realignment of the lira on the weekend of September 12-13, set the stage for sterling's humiliation.

Unguarded remarks from senior Bundesbank officials – notably those reported on the morning of September 16 from Helmut Schlesinger, the Bundesbank's president – simply put the match to the kerosene. Nonetheless, it did seem as though the Bundesbank was unaware of the dangers for the ERM posed by the French referendum.

In the event, the UK base rate increases were inadequate. What, after all, is a 5 percentage point interest rate increase against the likelihood of a 10 per cent devaluation by tomorrow morning? The government simply ran out of money and out of time. For some in the Bank of England, this disastrous *dénouement* even came as a relief.

Does this official view make sense? Only up to a point.

First of all, the government had no strategy for dealing with the aftermath of the French referendum. It is now clear that France had no intention of realigning the franc. Also, a sterling realignment on its own, while helpful in dealing with the evident overvaluation against the dollar, would have done nothing for the equally pressing problem of the interest rate.

Second, while the tactics probably made little difference to what became an unsustainable policy, serious tactical errors were made. Among the most important was the failure to deal sensibly with other ERM members. To enter at a rate the Germans thought ambitious was risky; to hector them was foolish; and to suggest that the UK's failure was reason for suspending the ERM was at least cheeky.

Third, economic events were unfortunate, but not unforeseeable. The Treasury failed to understand what had happened to the UK economy during the second half of the 1980s. It failed to foresee the onset of recession at the time of ERM entry. In both failures it was in the company of most analysts, but not, in fact, of all. Furthermore, the Treasury has never accepted what seems evident to many outside observers, that sterling's real exchange rate was seriously overvalued from the beginning, as is clearly suggested by the UK's trade performance. As for the supposedly unforeseen effects of German unification, UK officials needed only ask Karl Otto Pöhl, the former Bundesbank president, for his view of the consequences of the errors his government had committed before sterling's entry into the ERM.

More fundamentally still, these mishaps are not independent of the decision to fix exchange rates. It was partly because of the attempt to keep sterling down in 1987 and early 1988 that the UK entered the ERM with a huge debt overhang. It was also ERM membership that made it impossible to respond to unfolding economic circumstances. Inflexibility is, after all, the heart and soul of the mechanism.

What then is the main lesson?

It is that there are no magic wands, certainly not entry into the ERM on its own, probably not the ERM at all. The happy mishap of exit from the ERM gives the government another chance to find the long-term policies and institutions that will give the UK sustained, non-inflationary growth. But for now at least, the government has lost its policy and the country has lost its way.

India's dam-busters

Environmental concerns threaten the future of a $3bn World Bank development project, writes Stefan Wagstyl

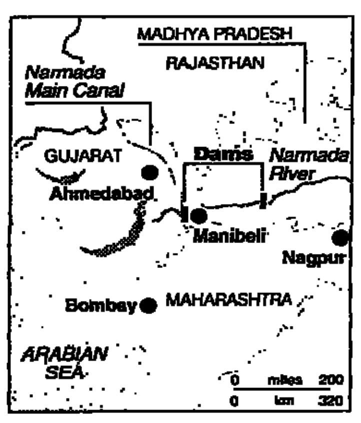
Manibeli, a village of thatched huts, muddy river banks and an ancient stone temple, will tomorrow top the agenda at a World Bank meeting in Washington. The bank's directors are due to debate the future of one of the bank's most controversial large-scale development projects – the construction of a huge dam across the Narmada River in north-western India.

The $3bn (£1.73bn) project will supply drinking water to about 30m people through a 75,000km network of canals, the world's largest, and generate torrents of electricity. However, it will also flood – partly or completely – land belonging to some 240,000 of India's poorest people. They include tribal villagers, such as the inhabitants of Manibeli, which is located on the Narmada in Maharashtra state.

Most of the 230 families of Manibeli have already moved out to resettlement sites purchased by the dam authorities. But most of the 30 or so who remain say they are ready to drown rather than move from their land or the surrounding forests which provide them with food, firewood and medicinal herbs. Mr Narayan, the 45-year-old headman, says: "We will not leave; our parents are buried here."

The villagers' stand has brought to a head the long-running battle over the dam's construction. Critics, led by environmental lobbyists, want it stopped on the grounds that too little consideration has been paid to the protection of local communities or the environment. Supporters – including the World Bank – say the benefits outweigh the costs and that displaced villagers are being resettled on better terms than in previous schemes.

The project was first discussed as long ago as 1946 and the foundation stone was laid by Jawaharlal Nehru, India's first prime minister, in 1961. However, the scheme was delayed by protracted disputes between the three states through which the Narmada flows – Gujarat, Maharashtra and Madhya Pradesh. It was 1979 before they were resolved and 1985 before the World Bank approved a $450m loan.



By then, environmental lobbyists, both in India and elsewhere, were winning public support for their concerns about large-scale construction schemes. In 1986, Mr Rajiv Gandhi, the late prime minister, acknowledged that India's big dams had failed to deliver the promised benefits. "Perhaps we can safely say that almost no benefit has come to the people from these projects."

Mr Gandhi and the World Bank saw the Narmada scheme as a chance to learn from past mistakes. They insisted the three states leading the scheme compensate displaced villagers in ways which safeguarded their economic and social well-being. They also demanded a detailed environmental master plan.

However, even though large-scale construction started in 1989, the three states failed to meet the conditions imposed upon them. A trickle of complaints from environmental activists became a flood, and last year the World Bank ordered an unprecedented independent review by Mr Bradford Morse, a US development aid administrator.

Mr Morse's report, delivered this summer, shocked the bank. He concluded that most of the environmental lobbyists' complaints were justified. "The projects as they stand are flawed; resettlement and rehabilitation of all those displaced by the projects is not possible under prevailing circumstances, and the environmental impacts of the projects have not been properly considered or adequately addressed," Mr Morse wrote.

He expressed particular concern about compensation for those villagers whose rights to land had never been recorded and about the continuing absence of any environmental master plan. Mr Morse stopped just short of recommending abandoning the project.

World Bank experts accept many of Mr Morse's criticisms, but argue there is time to make improvements before the main dam's completion in 2000. The three states make the same point, adding, belligerently, that the dam will be built with or without the World Bank.

The bank's directors are unlikely to abandon the main dam and canals when they met on Thursday. But they could well refrain from funding other dams the states plan along the Narmada. And they could insist that Mr Morse's objections are met before more bank money is spent on the scheme.

That will not entirely satisfy the Manibeli villagers. But they will have the comfort of knowing they have secured better compensation than they might have thought possible even a year ago. Moreover, they will have helped to force a wholesale reappraisal of the project – and, by extension, of the value of large-scale irrigation schemes everywhere. As a World Bank official in India says: "We have learnt some important lessons here."

Edward Mortimer

Make-your-mind-up time

John Major cannot afford to put off the crucial decision on the UK's future role in Europe

FOREIGN AFFAIRS

Foreign affairs, domestic politics, economic policy: the barriers between them have broken down. At this moment in British history, a commentator can no longer take refuge in his "specialist" role. It is a time when choices have to be made.

I am not qualified, in any specialist sense, to pass an economic judgment on Britain's membership of the European exchange rate mechanism. Nor would I deny that political ambitions are doomed to failure if they ignore economic realities. But I believe the choice facing the UK government in these crucial weeks is more important than any technical issue about the management of the exchange rate.

Until two weeks ago Mr John Major's name stood for something, not only in Britain but in Europe:

- He was the chancellor who had persuaded the then Mrs Margaret Thatcher to bring the pound into the ERM. Too late, perhaps. At the wrong rate, it now seems almost certain. But he did it.
- He was the leader to whom his party turned when Mrs Thatcher's position, largely because of her anti-Europeanism, had become untenable.
- He was the prime minister who promised to put Britain at the heart of Europe, who forged a new working relationship with Chancellor Helmut Kohl, and who blessed the alliance of his party with the Christian Democrats in the European Parliament.
- Finally, he was the man *who negotiated and accepted* the Maastricht treaty.

Admittedly he did so in the run-up to a general election, with many anxious backward glances. He earned, in those negotiations, the sobriquet of "true Euro-sceptic" bestowed on him last weekend by Mr Tristan Garel-Jones.

He fought, in alliance with the French government, to expunge all traces of federalism from the proposed European Union, thereby ensuring that it would be less democratic and probably less effective than it might have been. He insisted on reserving Britain's final decision on joining the monetary union until a later stage in the process. And he set his face so firmly against any social dimension of the Union that, in the words of one Conservative MEP: "If they'd put a blank sheet of paper headed Social Chapter in front of him and left him to fill it in for *himself*, he *still* wouldn't have signed it."

This, of course, was so that he could return to London claiming victory. "Game, set and match for Britain," he proclaimed, making many of us wince. But it was all good politics: a means to the end of ensuring that Britain was at last accepted by the rest of the EC as a wholehearted, if sometimes difficult, partner.

Now that achievement has *been, to say the least, thrown* into doubt. It is not all Mr Major's fault. He was not helped by the Danish referendum result – though with hindsight he must surely regret not pressing on regardless with Britain's parliamentary ratification process and getting it out of the way. He was not helped by President François Mitterrand's decision to hold a referendum in France, which may have seemed like a purely procedural issue in early June but, by late August, had generated enough uncertainty to throw the currency markets into turmoil. And he was not helped as much as he might have been by the *Bundesbank, which* – not having been consulted about the exchange rate fixed in 1990 – was neither convinced by it intellectually nor committed to it morally.

He was not helped, either, by British industry, which failed lamentably to seize the opportunities offered by Germany's unification boom – with the result that Britain was less able than Holland or France to sustain the high interest rates *imposed by the Bundesbank to* choke the boom off.

'If they'd left Major to fill in a blank *Social Chapter for himself, he still* wouldn't have signed it'

So a realignment within the ERM would have been an acceptable, if in some respects regrettable, response to what had become a very bleak economic position. Pulling out of the ERM was harder to reconcile with Mr Major's European reputation, but that reputation can still be retrieved if he confirms unambiguously that this is only a temporary measure, and above all if he commits himself clearly to getting Maastricht ratified by the British parliament as soon as possible.

That may be what he thought he was doing in his speech in the Commons last *Thursday. But outside the* House the blast of the trumpet has come over as a weak and feeble sound. It seemed as if Mr Major was more concerned to delay or at best avoid the issue, by hedging both ERM reentry and Maastricht ratification with conditions, than to summon his supporters for a decisive struggle.

Meanwhile Mr Norman Lamont has continued banging his new-found nationalist drum. He has staked out a supposedly independent British monetary policy which, if it means anything, means that Britain will henceforth give a lower priority to the fight against inflation; and he has engaged in an unbelievably puerile war of words with the Bundesbank.

Emulating the unjust steward in the gospel, Mr Lamont has been trying to save his career by making himself "friends of the mammon of unrighteousness", among the fiercest critics of what was until a fortnight ago the be-all and end-all of his economic policy. By yesterday things had reached the point where, in order to placate these new-found friends, he was obliged to disclaim any intention of apologising for his intemperate anti-German remarks.

Two weeks ago Mr Major was honourably unwilling to make Mr Lamont the scapegoat for the failure of a policy to which he himself was equally committed. That was rather quixotic even at the time – especially in view of his willingness to throw Mr David Mellor to the wolves for far more trivial reasons. But Mr Lamont's position has now become completely untenable.

Given his constantly repeated anti-devaluation *stance before September 16* he cannot credibly present himself as the architect of an entirely different policy. But equally his statements since then are incompatible with any attempt to retrieve even the *shreds of the government's* European policy and the prime minister's reputation.

Mr Major's instinct is, it seems, to play for time, in the hope that he can avoid splitting his party by extracting new forms of words from his European colleagues. He may even hope that, if he waits long enough, Maastricht will collapse under its own weight.

That instinct is wrong. Even if it enables him to remain prime minister (which is far from certain), it will be only – as Mr John Smith so felicitously put it – as the "devalued prime minister of a devalued government" and indeed of a devalued country.

Maastricht is not perfect. It may have to be augmented, reinterpreted or even revised. But Mr Major can only argue that case within the EC if it is absolutely clear that he is not trying to wriggle out of the commitment he gave last *December. If he wants Britain* ever again to be taken seriously in Europe he must make up his mind now, remind the world what he stands for, and insist that his party follow him or choose another leader.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Public sector pay limit represents desperate ploy rather than solution

From Mr David Pelly.

Sir, The government, currently standing amid the ruins of its economic policy, has now latched on to a 2 per cent limit on public sector pay as a vital element of economic recovery.

The CBI has followed up with a cry for a public sector pay freeze.

Your leading article on the subject (September 25) heartily endorsed such an approach while failing to identify more precisely what the costs and benefits might be.

Assuming that the total public sector pay bill amounts to about £70bn, a reduction in pay awards from perhaps 3.25 per cent next year to 2 per cent would cut the pay bill by some £800m; a not insubstantial amount that might be put to good use elsewhere.

However, this figure should be put into perspective. It would amount to only 0.3 per cent of the government's planned spending next year and would only reduce the PSBR by about 0.2 per cent of GDP. Its material impact on the underlying problems of the economy would therefore be minimal.

Furthermore, the costs of enforcing such a limit would be high.

It would wholly undermine the existing systems of pay determination in the public sector and provoke unrest at a time of relative stability.

It would demotivate public servants when the government is ostensibly trying to encourage better performance from them. It would undermine attempts to improve public services. Unless applied in perpetuity it would lead to public sector workers pursuing higher claims in subsequent years to catch up with their private sector counterparts. It would not lead employers in the private sector to take similar action since they will continue to reach settlements that are mainly determined by the cost of living, their financial circumstances, and their competitors' rates. More significantly, such a pay policy would do little to stimulate economic recovery in terms of investment in manufacturing and infrastructure, better training, or consumer spending.

The proposal to make real cuts in the pay of public sector workers at this point must therefore represent a desperate ploy to rescue the government from its current difficulties rather than a serious attempt to address the underlying weaknesses of the economy.

David Pelly,
IPMS director of research,
75-79 York Road
London SE1 7AQ

In praise of the 'New Look Employment' scheme

From D J Robinson.

Sir, I refer to your article "Flexibility is all in a Year's Work: A look at one company's experience of introducing an annualised hours system" by Catherine Milton (September 7).

The article, I felt, did less than justice to the 'New Look Employment' scheme operated at the Van den Berghs factory in Purfleet, Essex.

British industry has been plagued for years with the uncompetitive practices of low productivity, high overtime and trade demarcations.

The annual hours 'New Look *Employment' contract that was* introduced in January 1990, with a majority Yes vote from the membership of each of the unions concerned, has proved to be a very successful means of wiping away, at a stroke, these costly industrial practices.

In recognition of this, our employees now enjoy a guaranteed annual salary, work substantially fewer hours than previously, and are much more involved in the day-to-day problem solving in their work areas.

Productivity increased significantly and the foundation was laid for a better working *climate for everyone in the factory.* We are very proud of the factory, our achievements and also of the annual hours agreement.

From being one of the most expensive Unilever margarine factories in Europe in the 1980s, we are now the cheapest.

That turnround has been achieved with the excellent co-operation of our employees, and was considerably helped by the *benefits* we have *all* obtained from the 'New Look Employment' package.

D J Robinson,
Van den Berghs & Jurgens Ltd,
Burgess Hill,
West Sussex,
RH15 9AW

Irish Stock Exchange has investor compensation

From Mr Tom Healy.

Sir, Donald Elkin's "Investor Protection – Expatriates" (Finance & the Family, September 15) stated that Ireland does not have an investor compensation scheme.

While there is no national scheme for the investment services sector, member firms of the Irish Stock Exchange participate in a scheme for investor compensation.

Mr Elkin's final comment was that "expatriates have greater protection when dealing with UK firms than they would by investing in an unregulated environment". One cannot quibble with a statement of the obvious. However, some readers may have inferred from his statement that most places outside the UK, in particular certain countries mentioned, do not have regulated environments.

The Irish stock market is subject to a high quality system of regulation, based on the same code as in the UK. Members of the Irish Stock Exchange participate in an investor compensation scheme.

Tom Healy,
General manager,
The Irish Stock Exchange,
28 Anglesea Street,
Dublin 2

Drowning Germany clings to the franc

From Mr Maurice André.

Sir, May I express the wholly unorthodox view that, in recent days, the Bundesbank was trying less to save the French franc than to protect Germany from the consequences of its refusal to pay for being reunited?

"Hard-core Europe," that child of Messrs Delors, Kohl and Mitterrand, is only a device allowing the drowning German economy to cling as long as possible to the French one (the fundamentals of which were the best in Europe two weeks ago) until both are finally sunk.

Otherwise, there is no reason for France to go on living with an uncompetitive exchange rate and real interest rates twice or thrice as high as what is sustainable in the long run.

If a united Europe is thought necessary, then let the other 11 countries go ahead and leave Germany alone until it is willing to solve its own problems.

Maurice André,
38 avenue du Général de Gaulle,
F-94300 Vincennes

Royal Mint crowns history of confusion

From S Matthews.

Sir, Your published illustration of a selection of European bank notes ("Breaking out of the D-Mark's *orbit*", September 18) highlights an intriguing aspect of British monetary policy.

While international markets have been churning sterling in recent weeks, the Royal Mint has been contributing for years to our monetary confusion.

Of all the notes illustrated Britain's, denominationally, is the most difficult to identify. The £5, £10 (new) and £20 notes can hardly be distinguished, except in bright daylight.

S Matthews,
46 Lower Belgrave Street,
London SW1W 0LN

OBSERVER

Vestey takes the helm

■ It says something about the paucity of talented admirals in Britain's sinking shipping industry that Edmund Vestey, shy chairman of the family's Blue Star line, has been refloated as president of the Chamber of Shipping.

It is 11 years since he last held the job and he had to be press-ganged into serving again. After all, his own business is wallowing somewhat, not to mention the distraction of being chairman of the Masters of Foxhounds Association.

There simply aren't enough British shipowners to go round these days. At least Vestey's fleet is near 50 ships and still expanding, whereas rivals such as Ben Line, Port Line, Shaw Savill, Ellerman and Blue Funnel have sunk from sight.

The UK-owned and registered fleet has shrunk from 36m dwt to 3.6m dwt since Vestey was last president, and the number of seafarers has fallen by two thirds. Presumably Vestey will follow his predecessors by angling for tax breaks, albeit probably with no more success.

Indeed, the fact that his own shipping business has prospered undermines the case for tax perks. Far better to seek a few entrepreneurial recruits for the chamber's declining membership. And how about abolishing separate messes for officers and other ranks? That might catch the PM's eye and ensure Vestey's elusive knighthood.

Changing gear

■ If there is any doubt that grandsons who inherit the family business can do better than their ancestors, then the career of Italy's Gianni Agnelli proves otherwise.

After spending 25 years at the helm of Fiat, Italy's biggest private sector company, and over half a century as a director, Agnelli has finally announced he will hand over the wheel in 1994.

Fiat's fortunes have prospered under Agnelli, but with the domestic economy souring and Fiat's share of the domestic car market now in steady decline, *L'Avvocato*, as he is known, may have *decided he could hardly bend* Fiat's rules which forbid anyone who is 75 during his term of office from standing for re-election.

However, Agnelli is handing over to his brother Umberto, 13 years his junior, because he says his own son, Edoardo, is not a businessman.

Open secret

■ The latest organisation chart from *Her Majesty's Treasury* shows that a C Farthing is in charge of division one of the Treasury's banking group, and M Perfect is handling running costs in the management policy division. But should local government finance be in the hands of R Bent...?

Fundamental

■ George Soros, the Hungarian-American investment guru, has just hired another economist who knows Capitol Hill and the international economic policy-makers circuit as thoroughly as he understands Wall Street.

Robert Johnson, a foreign exchange specialist from Bankers Trust in New York, is also a former chief economist of the Senate Banking Committee and is the sort of forex expert to make chartists nervous.

In the recent Euro-turmoil,

it is those plugged into the policy-making scene who have been able to make the most of the central banks' discomfiture – and hedge funds, such as those in the *Soros stable, have increasingly* been on the look-out for economists who can span both worlds.

It is also the hedge funds in particular that are understood to have had a field day in the past few weeks – though Johnson is of course not prepared to give anything away on that score.

Unfair view

■ Red faces at the Institute of Chartered Accountants in England and Wales yesterday. Three academics it had sponsored to carry out research on the role of auditors came up with the wrong result.

The daring dons did not *exactly stick to the party line*, suggesting instead that audit regulation should be wrested away from the Institute to an independent "office for auditing" (Offaudit?).

Rather than blaming the public for the so-called "expectations gap" – the difference between what is expected of them and what they actually do – auditors should actually extend their responsibilities to include the detection of material fraud.

More radical still, says the report, auditors should be appointed and their fees determined externally, and not by those on whom they are reporting – the directors of a company.

The Institute could hardly be said to have presented a "true and fair" view of the contents of the report. In the accompanying three-page press release, it only mentions these recommendations halfway down the second page – though they come bang at the front of the actual report – and then rebuts them at equal length.

Servicing

■ *Liam Strong, chief executive* of Sears, tells a story illustrating the business of building customer loyalty.

A friend of his wanted to buy a car and looked at Toyota's Lexus. But he bought a BMW. The Lexus sales manager called by and asked how the BMW was. "Fine," said the friend, "except for the oddest thing: it came without an ash-tray and I'm having the devil of a job finding one."

Two days later a Lexus rep delivered a BMW ash-tray to the friend's house, with a compliments slip from the sales manager.

Whisper it not

■ *Tough times in the cocktail* cabinet. Having extended its Happy Hour to all night, every night, Rumours, the Covent Garden cocktail bar, has now introduced an Xtra Happy Hour between 5pm and 6.30pm with an extra £1 off each drink.

FINANCIAL TIMES
Wednesday September 30 1992

Defence minister says government would consider a solo programme

UK may act alone on Eurofighter

By David White, Defence Correspondent, in London

BRITAIN WOULD consider producing the European Fighter Aircraft on its own if Germany, Spain and Italy quit the project, Mr Jonathan Aitken, the defence procurement minister, said yesterday.

His statement was the first firm indication from the British government that it might be prepared to contemplate a solo programme.

Mr Aitken said Britain would first need to study the cost implications and warned that a one-nation EFA would probably be more expensive. However, it was wrong to assume that the UK Treasury would necessarily take a negative or hostile view, he said.

He expected the project to maintain strong backing from the Department of Trade and Industry and the Department of Employment.

The Ministry of Defence did not accept the argument that a less capable aircraft might suffice.

Mr Aitken said he remained "reasonably, cautiously optimistic" there would still be some collaboration on the programme even if Germany stuck to its decision not to stay with the project into the production phase.

Neither Spain nor Italy had ruled out trinational production, he said. "It is simply that they are endeavouring to find a basis on which Germany might remain in the programme."

Defence ministers from the four countries are due to decide the project's future at a meeting in late November following the completion of studies into cost reductions and a review of military requirements.

The confidential quotation that industrial partners submitted in April for EFA's production phase was much higher than expected, Mr Aitken said. He added: "We simply have to get the costs back into line."

Speaking at a defence industry conference in London organised by Westminster and City Programmes, he warned that any delays in the timetable would increase production costs.

The alternative, lighter aircraft proposed by Germany would be cheaper to make, but would involve repeating much of the £5bn ($8.5bn) worth of development work done on EFA.

"The eventual cost could well turn out to be higher, and entry into service certainly later," Mr Aitken said.

If Britain were left alone in the EFA project, he said, savings could be made by rationalising facilities, and the cost per aircraft might not be greatly increased.

Mr Aitken's comments followed notification from Germany reserving its right to withdraw from EFA development work, in which it is still involved, as early as next February.

Bank of England chief urges rein on fiscal policy

UK economic policy and reform plans for ERM still not finalised

By Alison Smith, Peter Norman and Peter Marsh in London

MR Robin Leigh-Pemberton, governor of the Bank of England, yesterday warned the government against letting the pound slip too far and loosening fiscal policy in a bid to speed recovery.

Mr Leigh-Pemberton spoke as it became clear that the UK government is still a long way from finalising its domestic and European economic policies, including plans it might have for the European exchange rate mechanism.

According to Treasury officials, the UK has yet to draw up detailed proposals for reforming the ERM. A similar gap exists in the case of monetary policy, where the government has given itself until the chancellor makes a key speech on October 29 to flesh out the details of the British monetary policy outlined by Mr Lamont in Washington 10 days ago.

Mr John Major yesterday insisted that there would be reform of the ERM, despite the apparent rejection of the idea by European Community finance ministers in Brussels on Monday.

Speaking in London, the prime minister underlined that the "faultlines" in the mechanism would have to be corrected before the UK would consider rejoining the ERM. It was not simply the UK that had experienced the problems of the ERM, but Spain, Italy, Ireland and France too.

Mr Leigh-Pemberton's carefully veiled remarks came in a speech on international monetary co-operation before the British-American Chamber of Commerce. They helped lift the pound on the foreign exchanges to DM2.5272 at the close as financial markets interpreted his remarks as warning against further further sharp interest rate cuts in the UK. Sterling had earlier threatened to slip below the DM2.50 level.

More explicitly, Mr Leigh-Pemberton hinted that Germany should cut interest rates to help growth in Europe.

His comments that the UK could not afford to ignore the exchange rate highlighted the need for the government to clarify its economic policies both at home and abroad.

The need to find some way through the apparent impasse on ERM reform is likely to dominate Mr Major's round of discussions with other EC heads of government today and in the run up to the emergency summit of EC leaders in Birmingham on October 16. Today he sees president François Mitterrand in Paris before talking in London with Mr Poul Schlüter, the Danish prime minister.

Yesterday Mr Major was still hopeful that Britain's EC partners would back his call for ERM reform. "Those faultlines need to be addressed," he said. "I know that, our European partners know that, and they will acknowledge that and work will need to be done on that."

But UK Treasury officials admitted that Monday's meeting of EC finance ministers in Brussels "had not got down to specifics" and played down suggestions that the planned Birmingham summit would be the occasion for significant decisions on the future of the ERM.

Financial markets are still in the dark about how Mr Norman Lamont, the chancellor, will set monetary policy. In Washington, he promised a tight policy that would "give weight to a number of financial indicators",including narrow and broad money growth, asset prices and the exchange rate. Although sterling and the London stock market gained yesterday, foreign exchange dealers and analysts were yesterday reluctant to predict continuing stability in the absence of more detailed statements from the government before the end of October.

The prime minister's priority yesterday was to play down the continuing split in the Tory party over Europe. He dismissed the divisions as "froth and bubble" which he would not allow to distract him.

But the split was given new impetus by Lord Tebbit, the former cabinet minister, who in a newspaper article said that Mr Major had been wrongfooted in his efforts to take Britain to the heart of Europe.

Lamont's stock tumbles, Page 2
UK business failures rise, Page 8
Delusion to devaluation, Page 14
Make your mind up time, Page 15
Currencies, Page 34

Brazilian president Fernando Collor awaits the result of a congressional vote on his possible impeachment Page 6

Demand falls in German engineering

By Christopher Parkes in Bonn

ORDERS for German engineering products continued to fall in August, reinforcing both machinery makers' fears of a real 5 per cent fall in production this year and more widespread concern over the threat of recession.

The value of new contracts for machinery and plant signed during the month was 9 per cent down on the same month last year, the VDMA manufacturers' association said yesterday.

A three-month comparison, less prone to distortion by short-term factors, showed new order intake to the end of August down 12 per cent on last year.

The same measure at the end of July showed an 11 per cent year-on-year slump.

Meanwhile, a survey of 3,000 medium-sized companies concluded that German economic growth would fall 0.5 per cent in the next six months.

After stagnating for the past six months, the economy was "already on a recession-like downtrend," said Mr Jürgen Kölsch, chairman of the Federal Association of Young Entrepreneurs (BJU).

Plant utilisation among members surveyed had fallen from 90 per cent of capacity to 85 per cent within six months and was expected to fall further to 83 per cent in the next six.

The machinery and plant industry, which shares top position in the German exporters' league with vehicle makers, is already shedding 80,000 of its 1.15m workforce this year. Those plans were based on spring forecasts, which suggested total output would fall this year by only 2 per cent. This has since been revised to a 5 per cent drop.Meanwhile, Porsche, the luxury sports car maker yesterday announced plans to cut its 8,000 workforce by a further 1,000.

Porsche cuts, Page 18

Bosnian aid flights

Continued from Page 1

Franco Tudjman, the Croatian president, and Mr Dobrica Cosic, the Yugoslav federal president, while in Geneva.

Although most members of the UN Security Council, including the US, the UK and France, have strong reservations about using military aircraft to enforce a "no-fly" zone in Bosnia, Mr Hurd believes that the idea is worth pursuing by other means.The UK favours a solution under which UN monitors would be stationed on Serbian airfields to control military aircraft sorties.

Mr Hurd will also discuss with Mr Vance and Lord Owen ways to get humanitarian aid flights restarted.

Meanwhile, the UN said yesterday that two of its helicopters were fired on yesterday but landed safely at Zagreb airport with no damage or casualties. Mr Cedric Thornberry, UN civil affairs director, said that the incident may have been accidental.

In eastern Croatia, UN peacekeepers tightened security and warned they would use force if necessary to stop thousands of Croat refugees marching on their former homes in Serb-held territory. The march, planned to take place on Wednesday, could reignite the Serbo-Croat war, a UN commander said.

Allianz can keep stake

Continued from Page 1

when it first told Allianz to reduce its stake in the bank to just over 19 per cent.

The cartel authorities cited Deutsche Bank's and Assurance Générales de France's (AGF) recent purchases in the German life insurance sector as proof that acquisitions by large, financially strong institutions, had intensified competition. This ensured that Allianz no longer had a dominating market position, the Bundeskartellamt said.

At the beginning of this month Deutsche Bank announced the purchase of a controlling stake in Deutsche Herold Versicherungs, a family-controlled insurance group, and in July it bought a 30 per cent stake in Gerling, the largest privately owned insurance company in Germany. The Gerling deal received cartel approval yesterday.

The authorities said another reason behind the change of heart was that Allianz had reduced its direct holding in Hamburg-Mannheimer Lebensversicherung, Germany's second biggest life insurance company.

The basis for the original ruling was that Allianz dominated the German life insurance sector and could block Dresdner's independent move into the market.

World Weather

		°C	°F
Ajaccio	F	23	73
Algiers	S	27	81
Amsterdam	C	17	63
Athens	S	25	77
Bahrain	S	33	91
Bangkok	C	33	91
Barcelona	S	22	72
Beijing	S	22	72
Beirut	S	26	79
Belfast	C	14	57
Belgrade	S	28	82
Berlin	S	16	61
Biarritz	F	23	73
Bombay	S	33	91
Bordeaux	F	17	63
Boulogne	S	20	68
Brussels	S	19	66
Budapest	F	23	73
Buenos Aires	F	21	70
Cairo	S	29	84
Cape Town	S	18	64
Caracas	F	30	86
Casablanca †	S	21	70
Chicago †	S	3	37
Cologne	C	17	63
Copenhagen	S	13	55
Corfu	F	25	77
Dallas †	S	16	61
Dublin	C	13	55
Dubrovnik		-	-
Edinburgh	S	18	64
Faro	F	23	73
Florence	C	18	64
Frankfurt	C	16	99
Geneva	S	16	61
Gibraltar	S	23	73
Glasgow	C	19	66
Helsinki	R	11	52
Hong Kong	R	26	79
Innsbruck	T	13	55
Inverness	S	17	63
Islamabad	F	32	90
Istanbul	S	20	68
Jakarta	R	32	90
Johannesburg	S	24	75
Lisbon	C	21	70
London	F	19	66
Los Angeles †	S	19	66
Luxembourg	C	16	61
Madeira	R	23	73
Madrid	S	19	66
Majorca	S	25	77
Malaga	F	20	68
Malta	S	26	79
Manila	F	32	90
Melbourne	F	11	52
Mexico City	C	16	61
Miami †	C	26	79
Milan	F	21	70
Montreal †	C	10	50
Moscow	R	9	48
Munich	R	12	54
Nairobi	C	25	77
Naples	F	26	79
Nassau	F	31	88
New Delhi	S	33	91
New York †	S	14	57
Nice	S	23	73
Nicosia	S	28	82
Oporto	F	20	68
Oslo	F	12	54
Paris	F	16	61
Prague	C	18	64
Reykjavik	F	14	57
Rhodes	S	24	75
Rio de Janeiro	C	26	79
Rome	F	25	77
Salzburg	C	15	59
S'Francisco †	F	13	55
Seoul	C	20	68
Singapore	F	31	88
Stockholm	Dr	9	48
Strasbourg	F	16	61
Sydney	C	17	63
Taipei	F	29	84
Tangier	S	23	73
Tel Aviv	S	32	90
Tenerife	S	26	79
Tokyo	C	18	64
Toronto †	S	5	41
Tunis	F	27	81
Valencia	S	26	79
Venice	R	18	64
Vienna	C	21	70
Warsaw	F	14	57
Washington †	S	13	55
Zurich	C	13	55

Temperatures at midday yesterday
† Noon GMT temperatures
C - Cloudy Dr - Drizzle
F - Fair Fg - Fog H - Hail
R - Rain S - Sunny
Sl - Sleet Sn - Snow
T - Thunder

THE LEX COLUMN

Freedom's limits

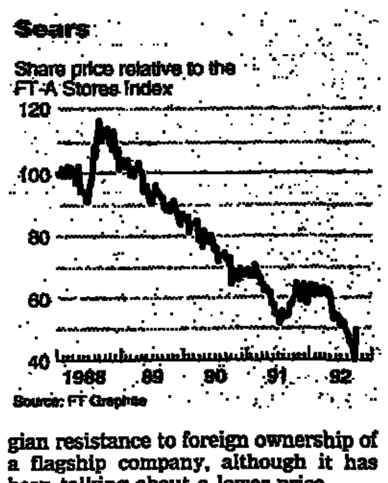
Mr Norman Lamont may have been moved to sing in his bath by the policy freedom conferred on Britain by devaluation. Yesterday's clutch of economic data suggests that freedom may be illusory. The savings rate remains depressingly high, while foreign investors were selling gilts hand over fist as pressure on sterling mounted in August.

The drop in the savings ratio to 10.3 per cent from 11 between the first and second quarters seems initially encouraging. But if the first quarter was distorted upwards by bonus payments ahead of the election, the second quarter was certainly distorted downwards for the same reason. The underlying trend still points to consumer debt aversion. Sears and Kingfisher have just reminded us there is no sign of a revival in consumer demand. That must wait until the housing market recovers, which, in turn requires yet lower interest rates.

How overseas investors might react to an even weaker pound is another matter. They bought £6.3bn in gilts in the year to July and sold £1.3bn in August. So they still have plenty left to sell. True, there is no immediate funding need, but that will not last. Before the government went into surplus in the late 1980s, gilts investors generally required a premium of more than 3 percentage points over German bond yields. It is now just 1.6 points.

Since sluggish world growth will keep export markets weak, recovery still has to be consumer-led to some degree. One tactic could be to cut interest rates sharply now. The authorities would have to hope sterling had stabilised and recovery was in place by the time funding had to resume in any quantity. But that would be a gamble to say the least. It will take luck and a measure of courage bordering on the reckless to generate much growth out of the new environment.

FT-SE Index: 2565.5 (+5.5)



Source: FT Graphite

Freia Marabou

The failure of Freia Marabou's share price to match the Jacobs Suchard NKr 450 offer suggests uncertainty about whether the takeover will be a pushover after all. In political terms, Jacobs' position is akin to that of Nestlé when it bid for Rowntree. Hershey is still waiting in the wings and has the advantage of already holding an 18 per cent stake. It has a long-standing connection with Marabou. By teaming up with a local company, Orkla, it could more easily overcome Norwegian resistance to foreign ownership of a flagship company, although it has been talking about a lower price.

A more likely explanation for the 6 per cent share price discount to the bid is the time value of money. Jacobs needs time to clear administrative hurdles. While the outcome is by no means certain, its ultimate parent, Philip Morris, has the resources to put up a powerful fight.

Besides, it is questionable whether Hershey could justify paying a multiple of some 25 times for a business with only limited value as a bridgehead into Europe. Marabou has more strategic value to Suchard. Not only would it gain an advantage over Mars and Nestlé in the Scandinavian market: Marabou's Daijm is a high-margin bar product in a segment where Suchard is weak. The Marabou acquisition would thus add to its range in Europe as a whole. If that is Suchard's strategy, Cadbury Schweppes could have cause for unease. Its European prospects would become less exciting still.

Sears

It seems the market wants to fall in love with Sears. Having missed the boat with the likes of Storehouse and Next this year, fund managers are determined to be aboard any recovery stock in the stores sector. After Sears' interim figures, brokers have a nice story to sell them. A cut in the interim dividend by a third to 1p follows hard on the heels of the painful and expensive exit from menswear retailing. Both suggest that the new chief executive, Mr Liam Strong, is determined to confront the company's problems. Even the reduced dividend provides some underpinning for the shares. If the company pays a total of 3.5p as expected, they will still yield 6 per cent at yesterday's close of 80p.

But investors should not get carried away. Down-at-heel British Shoe still has substantial difficulties and the 22 per cent profits fall at Freemans is alarming. Perhaps even more importantly, the whole group needs the magic of attractive new store presentations and innovative retailing ideas, things which Mr Strong has yet to show he can provide. One may also wonder about an asset valuation of 83p a share made in 1988 when recent disposals have been accompanied by red ink.

Mr Strong has made a promising start, but he must be all too uncomfortably aware that attempts to change corporate cultures fail more often than they succeed.

Jefferson Smurfit

UK institutions are traditionally wary of Irish companies, and have every excuse to avoid them when they are barred from the Footsie. Even so, the market can hardly deny that Jefferson Smurfit's balance sheet is in fine fettle for a paper and packaging business at this stage in the cycle. ItsI£220m of net cash is in impressive contrast to the position of most of its Scandinavian and Canadian competitors, whose debt in some cases exceeds their turnover. Admittedly there is some $2.3bn of off-balance sheet debt post the restructuring of JSC/CCA – but there is no recourse to Smurfit, and there is value in this US joint venture which may yet be cashed in.

The immediate challenge for Smurfit, though, is earnings, hit by the familiar problems of overcapacity and keen pricing in US and European markets. The company can only hope that its proposed linerboard increase will stick, and that the pressures which have caused discounts of more than 30 per cent in North American newsprint really are starting to ease. But while the stronger dollar should also make an impact on the UK and Spain in the current half, profits are unlikely to be much more than I£140m for the year as a whole.

The shares, down another 11 per cent to 228p yesterday, have been conspicuously weak since the end of March. Earnings will rebound sharply one day, but the timing of recovery remains as elusive as ever. For the moment investors are unlikely to be trampled in the rush.

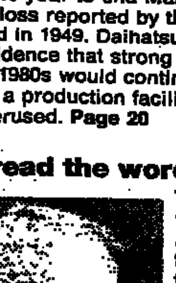
FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday September 30 1992

INSIDE

Daihatsu forecasts its first loss

Daihatsu Motor, the Japanese carmaker, yesterday forecast a pre-tax loss of Y5bn ($42m) for the year to end-March. This would be the first loss reported by the company since it was listed in 1949. Daihatsu's plight results from its confidence that strong car sales growth of the late 1980s would continue into the 1990s and it built a production facility that has been left underused. Page 20

Spread the word in the south



The Rev Pat Robertson, the US televangelist, has made a £38m ($65m) bid for TVS Entertainment, the independent television company which loses its southern England franchise at the end of this year. If the bid succeeds, the Rev Robertson will control his first overseas television company and UK viewers will have access to the wholesome family-oriented programming that has made his International Family Entertainment successful in the US. Page 24

Indian giant lifts turnover

Reliance Industries, India's second-largest company and the first to make an international equity offering, yesterday announced an 11.2 per cent rise in turnover for the year to March. The textile and petrochemical company claims to be among India's six largest manufacturer-exporters. Page 20

Rarity value of venture capital

Venture capital in Japan is becoming more scarce following the downturn of the country's economy. The slump in the equity market and gloom over the economy has made investors more conservative, while many financial institutions have retreated to their core businesses. Page 20

Goodyear rolls away from slump

Goodyear is rolling away from recession almost as rapidly as the tyremaker skidded into it. It reported record first-half sales of $5.8bn and a leap in first-half net earnings to $176m. Executives point to the shake-up instituted by chairman Mr Stanley Gault since taking office in June last year. Page 19

Investing after turbulence

If you are a fund manager, how you view the events of the past few weeks depends on where you sit. For sterling-based international investors, the devaluation of the pound has produced a helpful boost to performance: in sterling terms the FT-Actuaries World Index excluding the UK has risen by 13 per cent in the past three weeks; in dollars it has fallen 2 per cent. Back Page

Sour future for sugar producers

Mauritian sugar producers are facing the prospect of declining income. Production last year dropped due to drought and a cut in the area planted. The Mauritius Chamber of Agriculture has warned that the industry has come to a crossroads. Page 25

T&S Stores squeezed

T&S Stores, the UK shop group, blamed a fall in pre-tax profits on a squeeze on margins at Supercigs, the group's tobacco retailing subsidiary, and its newsagents' chain. Group pre-tax profits fell 7.7 per cent to £6.54m in the six months to June 27. Page 22

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Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Falls			
Allianz Ind	530	+	20	Axa	740	–	45
Lahmeyer	580	+	25	Bongrain	3020	–	180
Mannesmann	215	+	9	Fin Poliet	360.1	–	30.1
Rheinelektra	818	+	18	Intertechnique	560	–	38
Falls				Paribas	313.3	–	22.7
Bil & Berger	821	–	21	Schneider	550	–	29
Porsche	590	–	15	TOKYO (Yen)			
NEW YORK ($)				Rises			
Rises				Chugokukogyo	439	+	34
Conrail	40⅝	+	1⅜	Daito Wool Spin	459	+	39
Middleby	2¼	+	⅝	Kimura Chem	646	+	46
Sears	44¾	+	3⅜	Falls			
Falls				Hiroshima Bank	650	–	56
Collagen	13⅜	–	4⅜	Japan Casting	275	–	35
Times Mirror	31¼	–	1¾	Jujo Paper	474	–	46
Whitman Corp	12½	–	½				

LONDON (Pence)							
Rises				Bowthorpe	247	–	14
AfricanLakes	37	+	3	Capital Inds	86	–	6
Allied-Lyons	613	+	18	City Site	17	–	5
BM Group	106	+	6	Clarke Foods	10	–	3
Drummond	25	+	4	Clarkson (H)	59	–	7
EnterpriseOil	426	+	14	Firth (GM)	11	–	2
Lon&Manchstr	252	+	12	Hadleigh Inds	46	–	13
Sears	80	+	8	Hepworth	243	–	40
SmKlBeechamA	492	+	19	Lloyds Bank	431	–	21
Sturge	90	+	7	RMC	413	–	21
Thorpe (FW)	100	+	12	Smurfit (Jlsn)	228	–	29
Walter Baker	325	+	23	Spyhawk	10½	–	1½
Falls							
Boosey Hawkes	865	–	95				

Porsche cuts more jobs to stay independent

By David Waller in Frankfurt

PORSCHE, the troubled German luxury car-maker, yesterday announced a swingeing round of job cuts, the second during the current business year, which it said were unavoidable if it was to preserve its independence over the long term.

At the same time, the company warned of deteriorating conditions in markets that had hitherto been strong, for example in Germany, Italy and Japan, together with continuing problems in the US and UK.

It said export sales would be made even more difficult because of the recent turbulence in European currency markets and strengthening of the D-Mark.

The bleak statement, which gives the first indication of the circumstances leading up to the surprise replacement of Mr Arno Bohn as chief executive by Mr Wendelin Wiedeking last week, concluded by saying Porsche was expecting further falls in profits and sales during the current business year, following sales down from DM3.1bn ($2.08bn) to DM2.7bn in the year to the end of July.

Porsche explained yesterday that it intended to cut its workforce by a further 1,000 people this year, in addition to the 850 job cuts already announced. This means that during 1992-93 the workforce will shrink by almost a quarter from the 8,062 employees at the end of July.

The job cuts, intended to fall equally on all areas of the business, will go hand in hand with restructuring measures designed to lead to a sharp improvement in efficiency.

"The management board has decided this package of measures is unavoidable if the company is to remain independent over the long term," the statement said, emphasising that the family shareholders who control the company were determined to preserve its independence in spite of its difficulties.

The statement provided the background to the change of chief executives, but gave no clue to the precise problems that led to Mr Bohn's departure because of disagreements over "matters of business policy" last week. In response to questions, the company said Porsche and Mr Bohn had agreed to keep quiet over the circumstances of his departure.

Porsche said that in the year to the end of July it sold 22,481 cars, down from 26,486 the previous year. The share taken by exports fell from 61 per cent to 49 per cent, with unit sales rising by 9 per cent to 11,404 in Germany but falling by 30 per cent to 11,077 abroad.

The continental chocolate industry has been undergoing takeovers and blending, reports **Guy de Jonquières**

Hershey may launch counter bid for Freia Marabou

By Karen Fossli in London

HERSHEY Foods, the big US chocolates producer, is considering a counter bid for Freia Marabou, the Norwegian confectionery group which yesterday agreed to a $1.5bn takeover offer from the US Philip Morris group.

Hershey is Freia Marabou's second biggest shareholder with an 18.6 per cent stake, acquired in May this year for NKr1.16bn ($197.03) from Orkla, the Norwegian diversified foods group.

The Philip Morris bid has to be accepted by shareholders, who have been called to an extraordinary general assembly on October 9.

The offer has to win two-thirds backing by Freia's shareholders to amend the company's articles of association to allow the takeover.

Philip Morris also needs approval by Norway's energy and industry minister, Mr Finn Kristensen, who said he will consider the sale on the basis of the buyer's plans for the company.

Mr Richard Zimmerman, Hershey chief executive, said yesterday in Oslo that his company last weekend made an unconditional offer to acquire Freia Marabou for $1.3bn.

Mr Zimmerman said Hershey's bid still held but the company was considering several options to gain control of Freia Marabou and has invited Orkla to co-operate in a joint solution to acquire the company.

"We contacted Orkla on Monday indicating our intention to explore opportunities to work together in the pursuit of Freia Marabou. They expressed interest in continuing these discussions," Mr Zimmerman said.

US seeks a chunk of European taste

On the face of it, it seems slightly improbable that two leading US food companies should be competing to pay more than $1bn for a medium-sized Nordic manufacturer of chocolate, snack and biscuit products which are almost unknown to consumers outside Scandinavia.

However, the intensity of the contest between Kraft General Foods (KGF), part of tobacco manufacturer Philip Morris, and Hershey Foods to take over Freia Marabou of Norway is explained in two words: rarity value.

In the last five years, Europe's chocolate industry has undergone rapid concentration as manufacturers concluded that it was faster and less costly to expand across borders by acquisition than by struggling to build brands and win market share a few points at a time.

Today, two thirds of the European chocolate market is controlled by five companies: Nestlé of Switzerland; Mars of the US; Jacobs Suchard, which is owned by Philip Morris; Cadbury Schweppes of Britain; and Ferrero of Italy.

With few companies left to buy, prices soar when a manufacturer with proven brands and a strong market position becomes available. KGF's $1.5bn bid for Freia Marabou values the Norwegian company at about 25 times earnings – typical of the multiples paid for other big acquisitions in the industry in the past few years.

How quickly such huge premiums can be recouped through increased efficiency and scale is questionable. "A business school professor would conclude that a lot of big acquisitions are hard to justify on a cash-flow basis," says Mr Clive Richardson of London brokers Henderson Crosthwaite. "The large acquirers are taking a very long-term view."

In acquirers' minds, however, such doubts are often overshadowed by the prospect of seizing unrepeatable opportunities. Mr Helmut Maucher, chairman of Nestlé, says the £2.5bn ($4.4bn) paid for Rowntree in 1988 was worthwhile because the deal "decided relative positions in the industry for the next 100 years".

Though Freia Marabou sells little outside Scandinavia, it dominates a regional market which has so far been hardly penetrated by big multinational confectionery companies. It supplies a quarter of the biscuits, a third of the chocolates and almost half the snacks sold in the four Nordic countries.

Hershey and Philip Morris have entered the bidding from different starting points. The former has long had most of its sales in the US, where its chocolate is a brand leader, and recently began scouting for small-scale acquisitions in Europe. Apart from its 18.5 per cent stake in Freia Marabou, it has so far made one – Gubor Schokoladen in Germany.

Philip Morris is already Europe's fourth largest food manufacturer, with sales of about $8bn, and an extensive distribution network. Its operations there include coffee, cheese, dressings and pasta as well as chocolate.

If the Freia Marabou contest is decided simply on price, the odds overwhelmingly favour Philip Morris. Its net income of $3bn last year exceeded Hershey's sales of $2.9bn, and its tobacco business generates massive surplus cash.

Until recently, there had been doubts about the company's long-term commitment to chocolate. However, most analysts believe this week's bid has removed any uncertainty.

"Philip Morris has clearly signalled its intention to build an international empire in the business," says Mr John Campbell of brokers County NatWest.

Whether or not KGF wins Freia Marabou, the company is therefore likely to be on the look-out for further expansion opportunities in Europe.

Among potential acquisition candidates, only three of any size remain: Ferrero, Lindt in Switzerland and Cadbury Schweppes of Britain.

However, Ferrero and Lindt are controlled by families which have shown no inclination to sell out. Cadbury has long been touted as a potential takeover target, but seems determined to resist predators.

Furthermore, although Cadbury's 30 per cent share of the UK chocolate market could be attractive to Suchard, which has almost no presence in Britain, the two businesses would be difficult to integrate.

Indeed, the two companies are believed to have abandoned discussions on a proposed joint venture last year after concluding that there was little scope for productive co-operation. Not only do their strengths in moulded chocolate overlap, but a "taste barrier" keeps continental demand for Cadbury's products small.

Even if Europe's second rank chocolate manufacturers retain their independence, they must contend with steadily fiercer competition from industry leaders such as Nestlé, Mars and Cadbury.

Increasingly, growth in the European chocolate market is generated by transferring well-established brands internationally. Though national preferences in classic moulded chocolate differ widely, there is a growing convergence in taste for snack products and some speciality lines.

Nestlé has led the way, aggressively extending across Europe sales of Rowntree brands such as Kit-Kat bars and After Eight chocolate mints. These are now made on the continent as well as in Britain.

This is an enormously expensive game, requiring powerful local distribution networks and lavish advertising and brand support budgets.

Among the smaller, nationally-based producers, only Ferrero has so far played it with any success, largely because of its prowess at product innovation. Though Cadbury has acquired chocolate makers in France, Spain and Germany, it has lacked the scale and resources to establish a strong market position in these countries.

Given the steadily rising stakes in the industry, the question facing second-rank chocolate makers is whether it is worth persevering with ambitions to build a Europe-wide presence, or whether they should retreat to a more defensible home base.

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Chocolate: European market share

Per cent

	Nestlé (Switz)	Mars (US)	Suchard (Switz/US)	Cadbury Schweppes (UK)	Ferrero Rocher (Italy)	All others
UK	28	26	2	30	2	12
Germany	13	17	19	–	16	37
France	27	11	14	8	6	33
Italy	22	10	3	–	28	37
Spain	36	1	14	1	–	46
Netherlands	15	23	9	–	–	53
TOTAL EUROPE	20	16	12	10	9	33

Source: BZW estimates

Cross-border confectionery acquisitions in Europe

Year	Acquirer	Target	Value
1987	Jacobs Suchard (Swiss)	Côte d'Or (Belgium)	SFr190m
1988	Cadbury Schweppes (UK)	Poulain (France)	£95m
	Nestlé (Swiss)	Rowntree (UK)	£2.5bn
	Nestlé	Buitoni-Perugina	SFr1.8bn
1989	Cadbury Schweppes	Hueso (Spain)	NA
1990	Philip Morris (US)	Jacobs Suchard	$3.8bn
1991	Hershey (US)	Guber Schokoladen (Germany)	NA
	Nestlé	Intercsokolade (Hungary)	NA
	Pepsico	Wedel (40%) (Poland)	$24m
1992	BSN (France)/Nestlé	Cokoladovny (Czech)	$126m

Sears, Roebuck sells financial services units to reduce debt

By Patrick Harverson in New York

SEARS, Roebuck, the world's second-largest retailer, announced yesterday it was spinning off or selling a large part of its successful financial services operation in a huge restructuring that should reduce corporate debt. Analysts estimate the restructuring will cut debt from $38bn to around $16.5bn

Sears is selling its most profitable operations in the hope that, by reducing debt and concentrating on a few businesses, it will lay a secure foundation for its loss-making domestic retailing operation.

The units Sears is selling accounted for 27 per cent of the $1.28bn in group profits last year, and 10 per cent of group revenues. In recent years this operation has lost market share to fast-growing discount chains and speciality stores.

In the shake-up Sears will:

- Sell 80 per cent of its Dean Witter Financial Services subsidiary (which includes the highly profitable securities brokerage and Discover credit card operations) to shareholders and float the remainder on the stock market via an initial public offering (IPO) of stock;
- Sell to private or public interests all of its Coldwell Banker Residential Services group, which consists of the property brokerage and relocation businesses, Sears Mortgage Corp and Sears Savings Bank;
- Sell a 20 per cent stake in its Allstate composite insurance subsidiary to the public in an IPO.

Sears expects the transactions to be completed by the end of next year, so it can focus on two core businesses: its big merchandise retailing operation, and its 80 per cent interest in Allstate.

Mr Edward Brennan, chairman, said although Sears financial services businesses had been successful "a thorough assessment of today's economic and business climate led us to conclude that refocusing our business strategy, changing our structure, and reducing leverage are all in the best interests of our shareholders and Sears".

The demerger will be seen as a victory for the large group of dissident shareholders who, unhappy with Sears' poor earnings performance, put forward a plan to spin off the financial services business at the annual meeting in May.

In New York, Sears shares rose $3⅜ to close at $44¾.

Cost reprieve for Eurotunnel

By Robert Peston in London

EUROTUNNEL is today expected to make important progress in its dispute with the Transmanche-Link (TML) consortium of building contractors over the costs of building the Channel tunnel.

Eurotunnel's 220 banks are expected to give the company an additional two months to continue its negotiations with TML over claims made by TML for additional payments.

Separately, TML contractors were last night braced for bad news from arbitration proceedings on whether they should continue to receive £50m ($85.50m) a month in extra progress payments from Eurotunnel to cover some of the cost-overrun.

They were worried the arbitrator may rule that the £50m payments should be terminated. Judgment is due today.

The monthly cash payments have been especially valuable to the UK contractors, which have been hurt by the building industry recession.

Eurotunnel was furious when an independent disputes panel ruled in March that the payments should be made and it appealed against the decision.

Since the disputes panel ruling, Eurotunnel has been forced by its banks to hold talks with TML to end the row over whether it or TML should bear the brunt of a sharp increase in the costs of building the tunnel.

The banks had set a deadline of early September for settlement of the dispute over the contractors' claims for more than £1bn in extra payments at 1985 prices.

Eurotunnel failed to meet the deadline, so its banks have had to vote on whether to allow Eurotunnel to continue drawing from its £6.8bn loan facility or whether to prompt a financial crisis, which could involve the banks taking control of the project.

The banks are voting on whether to allow Eurotunnel sufficient funds to continue meeting its obligations for another two months, while negotiations with TML continue. By yesterday evening, 100 banks had voted. An overwhelming majority – as measured by the value of their loans to Eurotunnel – had voted in favour of allowing Eurotunnel to continue drawing on facilities.

Eurotunnel needs a majority of only 65 per cent of votes cast. However, for the vote to be valid, 112 banks have to cast a vote. Bankers said they were confident the remaining 12 would vote by today's 5pm deadline.

Irish industrial company declines 20% at halfway

By Paul Abrahams in London

JEFFERSON Smurfit, Ireland's largest industrial group, yesterday reported pre-tax profits for the first six months to July 31 down 20 per cent from I£75.1m ($42.19m) to I£60m. Results were below expectations and the company's shares fell 11 per cent from 257p to 228p.

Mr Dermot Smurfit, chairman and chief executive of Smurfit Continental Europe, said the results were disappointing.

The group was continuing to struggle with low prices while the industry suffered a period of deflation, he explained.

He stressed, however, that the company was a strong ship in turbulent waters. In particular, the balance sheet was in good shape with net cash of about I£200m.

Operating cash-flow was positive at I£26m.

The group remained on the lookout for acquisitions, he said.

But although the industry's earnings were falling, transaction prices had not dropped to a level at which the company was interested. Any acquisitions would be funded in cash or through bank borrowings, rather than a rights issue, he added.

The results were achieved on turnover up 7 per cent, from I£611m to I£654m. Earnings per share fell 22 per cent from 11.7p to 9.1p on a part capitalisation basis. The company recently had a one-for-one share issue.

Margins had been suffering in the US and Europe, said Mr Smurfit. Poor demand and prices had meant the US and Canadian businesses' profits before tax fell from a profit of I£728,000 to a loss of I£4m for the six months. The group has restructured the borrowings of its JFC/CCA American subsidiary, which should increase its profits by $23m (£13.4m) for the full year.

In continental Europe, profits fell from I£22m to I£16m. A number of plants in Germany and Spain were operating short time.

However, the Venezuelan business was a star performer, with profits up 16 per cent from I£10m to I£11.6m. The group plans to expand and modernise the San Felipe paper mill in Venezuela at a cost of $77m.

Mr Smurfit expected a slowdown in discounting in the American newsprint market as newspaper pagination grew thanks to increased advertising and the presidential elections.

The directors declared a second interim dividend of 1.2306p per share for the year ending January 31 1993.

The board's intention is to recommend a full-year dividend of 3.74p, an increase of 5.7 per cent over the previous year.

Arbed hit by lower metal prices

By Andrew Hill and Lionel Barber in Brussels

ARBED, the Luxembourg steelmaker, yesterday announced a drastic reduction in net profits for the first half of this year. The group recorded a profit of only LFr364m ($12.1m), compared with LFr3.2bn in the first half of 1991, and warned there was no sign of an upturn in the global or European economy.

Arbed blamed lower metal prices and the worldwide recession and pledged to carry out further restructuring, including cuts in production costs, to limit the damage for the full year.

According to Arbed, steel prices are now as low as they were in 1987, the lowest point of the last downward cycle to hit the industry.

"The lack of industrial dynamism has been aggravated by increasingly restrictive monetary and fiscal policy in a number of countries, especially in the area of interest rates," said the company.

Turnover in the first half of the year dropped from LFr105bn to LFr98bn, and the company said it only broke even because steelmaking losses were offset by non-steel activities, such as cement.

Arbed, Luxembourg's largest industrial employer, said it had been particularly hit by the weakness of the dollar and losses in the US and Asian markets, as well as heavy competition from east European manufacturers.

The removal of EC steel quotas on imports from Poland, Czechoslovakia and Hungary has taken its toll on all EC steel producers, some of which have pressed for a reimposition of limits.

Arbed recorded net profits of LFr6bn in the whole of 1991.

Svenska Handelsbanken drops 80%

SVENSKA Handelsbanken, Sweden's third largest commercial bank, reported yesterday that operating profits fell 80 per cent to SKr441m ($81m) in the first eight months of 1992 from the comparable period last year, writes Chris Brown-Humes in Stockholm.

Credit losses rose 86 per cent to SKr3.94bn as a result of the protracted recession and the deteriorating property market. The losses correspond to 2.1 per cent of total lending at the end of August.

The bank made a loss of SKr223m in the second four months, after reporting operating profits of SKr664m in the first four months of the year. This was because the latest period saw a further SKr615m of losses stemming from loans to Gamlestaden, the collapsed finance company.

Svenska Handelsbanken's total share of losses relating to Gamlestaden now exceeds SKr1.1bn.

Italian steel group in deal with Lucchini

By Haig Simonian in Milan

ILVA, Italy's state-owned steel group which lost L498bn ($407.6m) last year, yesterday announced its long-awaited joint venture for its loss-making long products division.

The deal marks one of the biggest privatisation measures in Italy and should go some way towards reducing Ilva's losses while reassuring the European Commission that the group's rationalisation strategy is on track. Earlier this year, Sir Leon Brittan, the EC commissioner in charge of competition, questioned two recent Ilva capital increases and warned the commission might open a formal procedure against the company.

Ilva is selling 60 per cent of the companies which control its big Piombino and Turin works to the private sector Lucchini group. Under the transaction, which is still subject to precise valuations, Ilva could receive around L150bn from Lucchini, which will take on L280bn in debts from Piombino and L24bn from the Turin plant. Ilva's current group debt stands at L6,300bn.

Bringing in private-sector participation to Piombino, Ilva's second-biggest works, has been a crucial part of its strategy to staunch losses, expected to reach around L1,000bn in 1992.

The new joint venture, which is still subject to approval from the commission, will have sales of around L1,200bn and have annual output of almost 2.5m tonnes.

The transaction had been under discussion for many months, but failed to progress owing to the growing crisis in the European steel industry. Under an original proposal, three private-sector steel groups would have come in as shareholders.

The venture with Lucchini, will have around 20 per cent of the Italian market, and will be Europe's fifth-biggest steel maker of long laminates. Lucchini, which may launch a capital increase to help finance the deal, currently has sales of around L1,000bn.

UK retailer to close 350 shops

By Jane Fuller in London

SEARS, the UK retail and mail order group, will close 350 shops and shed up to 1,800 jobs over three years in the latest reorganisation of the British Shoe Corporation, which includes high street names such as Dolcis, Saxone and Freeman Hardy Willis.

The group also cut its interim dividend from 1.525p to 1p. Mr Geoffrey Maitland Smith, chairman, said that the final would also be reduced to give a total of 3.5p, down from 5.355p.

The cut came as no surprise to the market, and the share price gained 8p to close at 80p. It has risen 25 per cent since last week's announcement of a withdrawal from men's wear.

The £32.2m ($54.7m) exceptional cost of rationalising British Shoe pushed Sears into a pre-tax loss of £8.8m in the six months to July 31, and increased the loss per share from 0.3p to 0.5p.

Turnover slipped to £902m from £923.7m, reflecting a £55.2m fall from discontinued activities.

Pre-tax losses for the same period last year were £2.4m after £25.2m of rationalisation costs for men's wear. Mr Liam Strong, chief executive since February, said the stream of exceptional charges was over.

The announcement of job-cutting at British Shoe follows a 2,000 reduction in the workforce over the past year. An earlier round of reorganisation was launched in 1990.

After converting some of the closed shops and opening others out-of-town, the net effect would be to reduce the number of shops from 1,200 to to 1,000. The number of concessions (shops within shops) stays at about 570.

Freeman Hardy Willis and Curtess would be most affected. "They sell shoes cheaply to all the family," said Mr Strong, who is considering whether any of the group's six shoe brands should be discontinued.

The footwear division recovered from a trading loss of £3.3m to a profit of £1.9m on sales of £249.4m, down £7.7m. Dolcis improved on last year's good figures and Saxone returned to like-for-like sales growth.

Verdict Research, which monitors the retail sector, said British Shoe had 18.3 per cent of the UK's £3.73bn shoe market last year. The market had been flat in real terms since 1986.

Other divisions contributed to Sears' £27.4m (£23m) trading profit as follows: speciality retailing – children's wear, women's wear and leisurewear – up to £6.5m; Selfridges department store, up to £5.5m; home shopping, down to £11.9m; property up to £8.5m; others, mainly discontinued, lost £6.9m.

Lex, Page 16; Details, Page 22

Chairman of Skanska resigns

By Robert Taylor in Stockholm

THE chairman and chief executive of Skanska, Scandinavia's largest construction and property group, resigned yesterday, accepting his share of responsibility for the estimated SKr1.2bn ($222.2m) losses suffered by the company as a result of alleged unauthorised foreign exchange speculation and the high Swedish interest rates.

Mr Lars-Ove Hakansson, head of Skanska since 1986, said he was leaving immediately. He will be replaced as chairman by Mr Percy Barnevik, chief executive of Asea Brown-Boveri, the Swedish-Swiss engineering conglomerate, who has been on Skanska's board for the past six years and became vice-chairman in 1991.

Percy Barnevik: Skanska board member for six years

Mr Sven-Eric Hersvall will remain as Skanska's president but the post of chief executive will be subsumed in the organisation.

The sudden change at the top of the company followed an emergency board meeting yesterday. "Skanska is a well-run company strong on the contracting business side with a number of industrial companies and a good stock of real estate companies", said Mr Barnevik. It was important to concentrate harder on key operations and restore confidence in the company, he said.

Mr Hakansson's abrupt departure from Skanska follows the dismissal of the head of the group's financial subsidiary earlier in the month for alleged currency speculation during the summer that cost Skanska an estimated SKr1bn.

Philips plans Japanese expansion

PHILIPS, the Dutch electronics group and one of the world's biggest producers of light bulbs, plans to acquire a 70 per cent stake in Kondo Sylvania, the Japanese lighting company, from GTE Sylvania of the US, writes Ronald van de Krol in Amsterdam.

The Dutch company, which declined to disclose financial details, said it had already reached agreement with both GTE Sylvania and Kondo Sylvania's minority shareholders. The deal is expected to be completed soon.

The purchase will add about $40m in sales to Philips' annual lighting turnover of Fl 7.4bn ($4.6bn). It marks the first time Philips will manufacture lighting products in Japan. Until now, the company's Japanese sales comprised exports from Philips factories elsewhere.

Kondo Sylvania employs 300 people and specialises in developing, making and marketing halogen lamps, particularly those with professional photo and projection applications such as for film projectors and studio lighting.

Philips, a relative latecomer to the fast-growing field of halogen lighting, has succeeded in building its market share in halogen lights for cars, the home and a variety of professional uses. It said Kondo Sylvania's presence in professional photo lighting was a "very welcome addition" to its product range.

Benetton rises 16.5% to L92.8bn

By Haig Simonian

BENETTON, the Italian clothing group, raised net profits by 16.5 per cent to L92.8bn ($74.47m) in the first half of this year, on a 7 per cent rise in sales to L1,233bn.

The improvement came across virtually every line of the group's business, with strong growth from its up-market Sisley brand, which increased sales by 29 per cent.

Turnover by Benetton's socks and accessories division also jumped, with a 90 per cent increase stemming largely from increased sales of sports and women's shoes, as well as accessories. Geographically, Germany and Spain had performed particularly well, while sales had risen due to expansion into new areas, notably among developing countries.

The company confirmed the return of Mr Aldo Palmeri, its former managing director for eight years, to his previous position. Mr Palmeri, a one-time Bank of Italy official, left Benetton in February 1990 to become Citicorp's chief country corporate officer for Italy.

Benetton's gross industrial margin rose by 9.3 per cent to L460bn, while net financial charges dropped by L1.5bn to L16.8bn. Net debt fell by L75bn to L327bn.

O&Y to present outline of plan for restructuring

By Bernard Simon in Toronto

OLYMPIA & York, the ailing property developer, will today present the outline of a restructuring plan to creditors of its extensive operations in the US.

A feature of today's meeting will be the absence of any members of the Reichmann family, who own O&Y, or of the team handling restructuring negotiations for the Canadian parent company and the Canary Wharf project in London.

The US subsidiaries, which have so far managed to avoid the bankruptcy protection which was granted last May to O&Y's operations in Canada and the UK, have sought to distance themselves from the rest of the company.

O&Y is expected to ask the creditors to agree to postpone principal payments on its US buildings for the next five years and to pay interest only on those buildings which generate enough rental income to service their debts.

This, in essence, is what the company has been doing since its problems surfaced earlier this year.

Today's briefing, which will be held in one of O&Y's buildings in downtown Manhattan, will be chaired by Mr John Zuccotti, a former deputy mayor of New York who is chief executive of the US arm.

The meeting is being described as a preliminary one which will be followed by discussions with individual groups of lenders. Each of O&Y's two dozen or so buildings has its own group of bank lenders and/or bondholders. However, negotiations are complicated by the fact that, in some cases, loans to one building are backed by other properties. In addition, there are a number of unsecured lenders.

O&Y has equity partners in several of its US properties, including Mr Li Kashing, the Hong Kong tycoon and JMB, the Chicago-based property developer.

The US restructuring is taking place in tandem with a strategy of selling properties which are either unable to service their debt or require substantial investment for renovation.

O&Y has signed deals to sell two buildings, one at 320 Park Avenue, which is empty, and the other at 55 Water Street, which needs extensive refurbishing.

The company has all but given up its participation in the planned Yerba Buena project in San Francisco.

Further asset sales are understood to be in the pipeline, but the company declined to disclose what else it has put on the block.

Chairman pumps life into ailing tyre group

John Griffiths talks with Stanley Gault who has wasted little time in changing direction at Goodyear

LESS than two years ago, Goodyear Tire and Rubber's employees were contemplating their company's rapidly-deflating fortunes with dismay.

A 1987 net profit of $770.9m had plunged by 1990 to a loss of $40m. Savage job cuts were under way among the worldwide workforce of more than 100,000 people,and Goodyear was being demoted from first place to third in the world hierarchy of tyre manufacturers.

Today, Goodyear is rolling away from recession almost as rapidly as the company skidded into it.

It achieved record first-half sales of $5.8bn and a leap in first-half net earnings to a well-above-forecast $176m. This week, the company indicated there would be further third-quarter gains in both sales and profits.

Goodyear is being helped by a recovery slowly gaining pace in world tyre markets. But long-serving executives at the headquarters in Akron, Ohio, say that no less significant is the shake-up instituted by Mr Stanley Gault, chairman, since taking office in June last year.

It is a shake-up not without tensions: tomorrow, Mr Oren Shaffer, long-serving chief financial officer, is to resign to pursue other interests.

Unlike most of his predecessors Mr Gault, 66, is no dyed-in-the-treads tyre man.

He spent 10 years as chairman and chief executive of Rubbermaid, the Ohio toys-to-furniture group, before joining Goodyear. However, the bulk of his 31-year career had been spent with General Electric, where he became senior vice-president in charge of GE's industrial products and components sectors.

Mr Gault has wasted little time in altering Goodyear's course, while not overtly criticising his predecessors at Akron.

Nothing could better symbolise his strongly marketing-oriented approach than the announcement in March that Goodyear-branded tyres would be sold through North America's biggest retailing chain, Sears, Roebuck.

However, Mr Gault's edict was heresy to the managers of Goodyear-owned replacement tyre depots and independent dealers through which the company's tyres had been sold exclusively in North America.

He has no problems defending the decision. Goodyear's share of the large North American replacement car tyre market had fallen from 15 per cent to 12 per cent in the previous three years. The dedicated outlets had a reputation for being expensive and the market was changing, with brand loyalties fading.

Sears, Roebuck, moreover, is North America's single largest tyre retailer, selling nearly 10m units a year. "In other words, we haven't had tyres for sale in the places where people want to buy them," says Mr Gault.

Tread carefully: Goodyear is reclaiming market share

His concern about the replacement market is well-founded. It is three times larger than the original equipment sector and, although highly competitive, offers better margins.

Goodyear has since reclaimed one percentage point of its lost market share and added more than 1,000 employees to the North American retail market this year.

The 2.5m Goodyear tyres Mr Gault hopes Sears will sell annually would restore nearly two percentage points.

The deal with Sears covers supplies of own-label tyres produced by Goodyear's more downmarket subsidiary, Kelly-Springfield. For these, distribution deals have been concluded with Wal-Mart another mass retailer, and with Big O, an independent tyre retailing chain.

Goodyear has added another 3,300 outlets selling Goodyear or Goodyear-produced tyres in North America – a 35 per cent increase.

Goodyear's profits are being helped by the tyre industry's determined effort this year to break the long, recession-induced squeeze on margins by announcing price increases of up to 7 per cent.

No one expects it all to stick. However, Mr Philip Wylie, Barclays de Zoete Wedd analyst and author of a recent Economist Intelligence Unit report on the world tyre industry, estimates that about half should be retained, with a further lift coming from a long-delayed upturn in US vehicle production.

Mr Gault has brought to the market some new products perceived as providing Goodyear with a technological edge. Most notable is the Aquatred, a tyre with a large central groove, which gives the impression of two tyres mounted on one wheel. It is claimed to have superior grip on wet roads.

Much of Mr Gault's first year has been devoted to morale-improving missions to plants as the number of employees has shrunk to 97,000 and Goodyear has continued to seek productivity improvements.

In 1991, 7,000 jobs were lost worldwide. The company will continue to reduce manning levels wherever possible, Mr Gault insists, but the harshest cuts – 15,000 over the past four years – are said to be over.

The aim is to improve operating margins; reduce further the debt burden incurred in fighting off Sir James Goldsmith's takeover bid in the late 1980s and maintain tight control of capital spending.

Excluding restructuring items, Goodyear's operating margin improved to 9.2 per cent in the first half of this year, from 6.2 per cent in the same period of 1991.

Mr Gault hopes the debt burden will fall to below $2bn by the end of this year, down from $3.7bn in last year's first quarter – and two years ahead of schedule.

He acknowledges there is little prospect of selling off the multi-billion dollar All American Pipeline, Goodyear's most ill-advised diversification project of the 1980s. However, its operating losses in the first half of this year were cut to $13.5m, about one-third of year-ago levels and Mr Gault holds out the prospect of it soon making a profit.

Goodyear's European operations have been slimmed down, and in this region at least "there is not a lot of restructuring left for us to do". Indeed, Goodyear plans a $12.5m investment next year at its Luxembourg truck tyre plant.

Expansion is also planned for Thailand, the Philippines, Taiwan, Indonesia and other Pacific Rim countries.

Mr Gault is philosophical about Goodyear's demotion as the world's biggest tyremaker by both Michelin of France and Japan's Bridgestone. Both, he suggests, are saddled with bigger debt burdens than they bargained for with their respective acquisition of Uniroyal-Goodrich and Firestone.

Northrop fears $232m loss on Stealth bombers

By Karen Zagor

NORTHROP, the US defence contractor which is heavily dependent on the B-2 Stealth bomber programme, may lose about $232m in profits on its first 10 bombers because of manufacturing problems, according to US press reports.

The company, which is trying to increase its presence as a supplier of parts to commercial jets, is taking a third-quarter charge of $152m on a missile programme. Northrop's profit rate on the 10 aircraft is expected to drop to 9.5 per cent from a negotiated rate of 13.8 per cent. As of June, the programme had run about $555m over the contract target of $7.4bn.

The higher costs were attributed to lower aircraft orders, problems with sub-contractor performance, and a 42-day strike. The company said it had taken these issues into account.

Canadian unit buys MMB stake

By William Dawkins in Paris

NORTHERN TELECOM, the Canadian telecommunications group, is to take a 7.5 per cent stake in MMB, the French holding company which controls Matra, the telecommunications and transport group, and Hachette, the advertising and publishing company.

The move, to come into force at the end of this year, is a consequence of an offer published yesterday to buy out the outstanding MMB shareholders to pave the way for the merger of Matra and Hachette.

Northern Telecom is separately to pay FFr1.36bn ($270m) for a 20 per cent stake in Matra's telecommunications subsidiary.

Mr Philippe Camus, chairman of MMB, said Paribas, the French bank and industrial holding group, would also take 4 per cent in MMB, while other French financial institutions would take 25 per cent.

Mr Jean-Luc Lagardère, the businessman who controls Matra and Hachette, would take more than 10 per cent and Floirat, a holding group allied to Mr Lagardére, would take less than 10 per cent. Before the offer, MMB was 38.4 per cent owned by a Lagardère-controlled holding company, Arjil Groupe.

Outstanding shareholders are being offered FFr85 per share. This compares with the FFr83.9 at which MMB's shares were suspended on Monday, while the details were awaited.

Hachette was on course to report a net profit of FFr100m to FFr200m this year, after a FFr1.93bn loss in 1991, but the outlook for 1993 was uncertain, said Mr Camus.

Matra was set this year to report an increase on last year's net profit of FFr252m and the prospects for 1993 were good, he said.

Safeway tumbles 44.6% to $20m

By Karen Zagor in New York

TOUGH competition in the US food retail industry and the pressures of a lacklustre economy were underscored in the underlying third-quarter earnings of Safeway, the California-based supermarket group, which tumbled 44.6 per cent to $20m, or 17 cents a share.

Net income for the same period of 1991 was distorted by extraordinary items, which brought net income to $40.3m, or 33 cents a share. Stripping-out one-time items, Safeway earned $36.1m in the quarter.

The company had warned investors to expect earnings to drop about 50 per cent in the latest three months, and the shares edged slightly above their 52-week low yesterday morning, adding $¼ to $10¾.

Sales for the 1992 third quarter fell 2.3 per cent to $3.5bn, while same-store sales eased 3.5 per cent. The company, which was subject to a $4.2bn leveraged buy-out in 1986, reduced its interest expense in the latest quarter to $63.7m from $82.2m a year earlier.

For the first nine months, Safeway earned $48.4m, or 41 cents a share, against $102.6m, or 91 cents a year earlier. Revenues stood at $10.3bn, compared with $10.46bn last year.

● Times Mirror, the US media group, expects third-quarter operating results in its Newspaper Publishing Group to be considerably lower than those of a year ago, Reuter reports from Los Angeles.

The company gave no figures, but said improving advertising volume at its eastern newspapers and lower newsprint costs were not sufficient to offset the sharp declines in advertising revenue at the Los Angeles Times. The company said newspaper advertising revenues for the four weeks ended August 30 decreased 5.6 per cent, to $105.7m from $111.9m in August 1991.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Tomorrow on 30.09.92: Pool purchase price £/MWh	Final Prices for Trading on 02.09.92: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.70	17.76	17.76
0100	17.70	17.76	17.76
0130	17.70	17.76	17.76
0200	17.70	17.76	17.76
0230	17.70	17.76	17.76
0300	17.70	17.76	17.76
0330	17.70	17.76	17.76
0400	17.70	17.76	17.76
0430	17.70	17.76	17.76
0500	17.70	17.76	17.76
0530	17.70	17.89	17.89
0600	17.68	17.58	17.58
0630	17.70	20.46	23.06
0700	21.36	22.30	24.59
0730	22.36	22.60	25.27
0800	22.67	23.27	25.82
0830	23.58	26.77	28.46
0900	25.98	28.21	28.91
0930	24.85	33.75	36.69
1000	24.85	33.76	36.78
1030	24.84	33.74	36.65
1100	23.68	26.26	28.94
1130	23.58	28.29	28.98
1200	23.58	28.31	28.99
1230	23.58	28.26	28.94
1300	23.58	28.16	28.81
1330	23.63	28.04	28.67
1400	23.20	25.35	27.97
1430	21.25	25.75	26.33
1500	21.16	23.75	26.33
1530	21.25	24.41	27.00
1600	23.20	24.42	27.01
1630	23.00	24.43	27.03
1700	23.63	25.48	28.10
1730	24.84	25.46	28.07
1800	23.90	24.41	27.00
1830	21.25	23.66	26.24
1900	21.86	23.25	25.83
1930	23.46	23.06	25.63
2000	23.46	23.06	25.64
2030	23.46	23.25	25.82
2100	23.90	23.26	25.82
2130	23.00	23.25	25.83
2200	23.00	22.80	25.49
2230	22.20	22.60	25.21
2300	22.01	22.62	25.15
2330	21.17	17.79	17.79
2400	17.71	17.85	17.85

Prices are determined for every half-hour in each twenty-four hour period. [illegible] ©NGC Settlements Limited 1992

Daihatsu Motor forecasts Y5bn pre-tax deficit

By Robert Thomson in Tokyo

DAIHATSU Motor, the Japanese commercial vehicle and carmaker, yesterday forecast a pre-tax loss of Y5bn ($41.8m) for the year to the end of March. It would be the first loss reported by the Toyota Motor-affiliate since it was listed in 1949.

The company's plight results from its confidence that the unusually strong car sales growth of the late 1980s would continue into the 1990s. Like other Japanese carmakers, it built a production facility that has been left under-utilised by a downturn in the market.

Daihatsu, and the rest of the Japanese car industry, will be under extra pressure because of the yen's recent sharp appreciation. About 23 per cent of Daihatsu's sales come from exports, and the stronger yen is likely to trim export margins and growth.

Having specialised in mini-vehicles, cars with engine displacement of a maximum 660cc, Daihatsu has been hurt by a 6.2 per cent first-quarter fall in these models, compared with the same period last year, and a 12.5 per cent slide in the second quarter.

Last year, the carmaker *reported pre-tax profits of* Y4.6bn, down from Y13bn. Yesterday, it said the first-half and full-year loss would be Y5bn. It revised downwards its full-year sales forecast from Y820bn to Y800bn.

The company is fortunate to have the backing of Toyota, which has commissioned it to produce compact cars, but Daihatsu still faces a continuing fall in its main market. In August, sales of mini-cars were down 12.3 per cent on the same month last year.

Daihatsu has already reduced executive salaries and transferred administrative staff to the sales force. It announced yesterday that the two-shift operation at its Ikeda plant will be reduced to one shift until the market improves.

Japanese carmakers were forced by the turmoil in financial markets to tap cash reserves to fund the construction of new facilities, and Daihatsu's reserves fell by almost two-thirds last year, reducing its interest income this year.

Makers of mini-cars say the market has been bruised by tougher parking legislation introduced a year ago to reduce congestion in Tokyo and Osaka. Until then, mini-cars were exempt from a requirement that a new car purchaser have an off-street parking space.

The mini-car market was encouraged in 1990 by an expansion of the allowable engine size from 550cc to 660cc, *but even then Daihatsu missed* a gear change, as the company failed to pick a shift in demand towards luxury mini-cars. Having prepared to cater to that market, the company found it shrinking fast.

Gota Bank parent seeks receiver

By Robert Taylor in Stockholm

GOTA AB, the Swedish holding company which owns Gota Bank, the country's fourth largest commercial bank, declared yesterday that it was bankrupt with debts totalling SKr5bn. The group's board said that the whole of its share capital had been exhausted and it was applying to the courts for a receiver. It suspended all payments to creditors on September 16.

However, the board's decision will not affect Gota Bank which will continue to operate normally after the Swedish government guaranteed on September 9 to meet the bank's obligations. Mr Bo Lundgren, the minister responsible for financial institutions, emphasised that the bank's customers would not be injured by the collapse of Gota AB. "The government's earlier commitments to meet Gota Bank's obligations remain in force."

Mr Per Lundberg, Gota Bank's chief executive, said negotiations were going on with the Finance Ministry to reach an agreement on the bank's future.

But the bankruptcy of the holding company will bring *substantial losses of SKr1.5bn* ($275m) to its chief shareholder, Trygg-Hansa SPP, the insurance conglomerate, while many large Swedish companies and other banks risk losing about SKr1.5bn in loans and other financial support.

The group's fate was sealed over the past few days when it became clear that the Swedish state would not extend its guarantee to cover the holding company.

Yesterday, Gota Bank announced an operating deficit of SKr2.5bn for the first eight months of the year compared with SKr966m loss for the same period of last year – mainly due to a substantial growth of about SKr5bn in its credit losses. The bank expects to make an operating loss in 1992 of between SKr3bn and SKr4bn with credit losses totalling SKr8bn for the year.

Venture capital becomes a scarce resource

Emiko Terazono examines why Japan's investors are turning ever more conservative

VENTURE capital in Japan, always a rare resource, is becoming even more scarce following the downturn in the country's economy.

The slump in the equity market and gloom over the economy has made investors more conservative. Many financial institutions - which were keen newcomers to the Japanese venture capital market in the years of loose credit in the late 1980s – have retreated to their core businesses.

Problems at Ascii, the computer and software company led by Mr Kazuhiko Nishi, typify the troubles faced by small companies in raising venture capital. The company's expansion was funded in 1990 by bonds convertible into equities. However, the sharp fall in the Tokyo market has left the bonds – which expire next March – unconverted, and the company does not have the funds to repay investors.

Faced with mounting debts, Ascii turned to its banks for help, and managed to persuade its six main creditors to come up with a rescue package.

"Small companies are under great pressure, especially with larger companies cutting back on capital expenditure," says Mr Alan Acosta, analyst at Baring Securities.

The amount loaned by banks to small companies is likely to fall year-on-year for the first time in 15 years. New public offerings have virtually come to a halt since the over-the-counter (OTC) market plunged along with the first section of the Tokyo stock market.

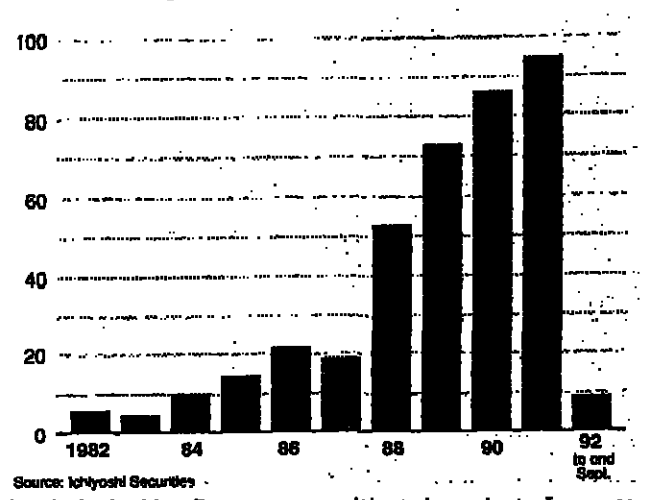
Mr Sadayoshi Hayashi, a director of Jafco, Japan's largest venture capital company and an affiliate of Nomura Securities, admits that times are hard. "The capital markets are in bad shape, but in the long run, the trend towards increasing listings for smaller companies has not changed," he says.

The downturn in the economy is working favourably for Jafco, since it makes investment decisions easier. "When things are good, everybody makes profits, but in times like these, we can pick out the good ones," Mr Hayashi says.

Venture capital in Japan has traditionally been different from that in the US and Europe, where capital is invested in the start-up of high-risk companies. In Japan, under a culture which values stable growth and the credibility of an organisation rather than that of an individual entrepreneur, there have been few small start-up ventures.

"Japan's venture capital market is not socially developed, and there is no real grass roots growth," says Mr Gary Chan, an analyst at James Capel, the broking firm.

New listings on the Japanese OTC market



Source: Ichiyoshi Securities

Venture capital companies in Japan focus on finding growing but mature companies with potential to be listed publicly, rather than taking large equity positions in companies. This is because they look for future profits through flotations and underwriting.

In the past, smaller companies have relied on government financing, and loans from small banks and loan co-operatives. The focus on stable growth rather than high profits, and the unwillingness of investors to place funds into start-up companies, has also mitigated against Japanese venture capital.

Another characteristic among Japanese companies, resulting from the lack of risk-taking by venture capitalists, is low profit growth. According to Nomura Research Institute (NRI), the average annual growth rate of revenues at the top 20 US companies, during the first four years of listing on Nasdaq, was 132.5 per cent. However, the figure for the top 20 Japanese companies listed on the over-the-counter market was 32.9 per cent.

Mr Shinichi Shibayama at NRI points out that the closed business structure in Japan, where leading companies and small corporations are not regarded as equals, and the lack of intake of qualified staff at small companies hamper growth.

Mr. Hayashi at Jafco said: "We are not deliberately avoiding new companies when we invest, it's just that there is no market for start-up companies which nobody has heard of."

Small companies face several years before they establish their credibility and become ready for public listing. On the OTC market, companies have been in business for an average 29 years before their initial offering. In the US, it is 4.7 years on Nasdaq.

In addition, fast growth areas such as high technology and biotechnology, usually targeted by venture capital companies in the US, are taken on by larger companies in Japan. For example, leading pharmaceuticals and foods corporations are active in research and development in biotechnology.

Recession or no recession, the venture capital business in Japan still faces social and cultural barriers. "One major hurdle is the reluctance among investors to provide credit on the back of innovation and new technology," says Mr Takehiro Tsuda, analyst at Ichiyoshi Securities.

Fuji Bank tells US unit to cut non-performing loans

By Robert Thomson

FUJI Bank, the Japanese commercial bank, has told Heller International, its US financial subsidiary, to reduce sharply its non-performing loans over the next three years.

The continuing difficulties at Heller, purchased nine years ago, highlight the problems facing Japanese banks which bought US financial institutions in the mid-1980s. Several of those US units are now burdened by non-performing loans made during the late 1980s, particularly to the property sector.

Fuji Bank has invested an estimated $700m in Chicago-based Heller, and the bank hopes its three-year reform plan will put the unit firmly into profit.

Advance at Reliance Industries

By Shiraz Sidhva in New Delhi

RELIANCE Industries, India's second-largest company and the first to make an international equity offering, yesterday announced an 11.2 per cent rise in turnover to a record Rs23.4bn ($8.3bn) for the year to March, up from Rs21.04bn a year earlier.

The textile and petrochemical company's operating profits advanced 18.7 per cent to Rs3.55bn from Rs2.99bn a year earlier, and net profits rose 30 per cent to Rs1.63bn from Rs1.25bn.

Reliance claimed it continued to be among India's six largest manufacturer-exporters, with exports of Rs810m in total.

Reliance this summer became the first Indian company to tap international equity capital markets with a $100m issue of global depository receipts (GDRs) through Morgan Stanley, the US investment bank. The GDRs are traded on over-the-counter markets in Hong Kong, London and New York.

The issue caused controversy when the share price fell sharply immediately after the offering, caused by Bombay's stock market scandal.

Reliance, one of India's most aggressive companies, has set an ambitious target of reaching turnover of Rs100bn in 1995 – a five-fold increase on last year's result.

Mr Dhirubhai Ambani, the group's 60-year-old founder, has struck deals with international partners including C. Itoh, the Japanese trading group, to set up a 6m tonne oil refinery in western India at an estimated cost of Rs30bn.

Reliance Industries' net asset value at the year-end was Rs19.43bn and its paid-up capital, Rs2.32bn.

In March, Reliance was expanded by the merger with Reliance Petrochemicals, its associate. The move was intended to give Reliance more leverage to raise funds from the capital markets ahead of its international equity offer.

Bic rises 11% despite loss at fashion subsidiary

By William Dawkins in Paris

ENCOURAGING first-half results have been reported by three French companies, Bic, the producer of disposable pens and razors; Au Printemps, the department store; and Poliet, the building materials group.

● Bic produced an 11 per cent increase in net profits to FFr241m ($47.25m) in the first six months of the year, due chiefly to its French, US and Brazilian operations.

This comes after a FFr49m loss from Guy Laroche, Bic's fashion arm, most of which is due to restructuring and write-downs on assets.

● Au Printemps, recently the subject of a takeover by Pinault, the distribution group, reported more than doubled first-half net profits of FFr206m, as against FFr87m in the same period of last year.

These figures do not include the FFr1.87bn gross profit which Au Printemps made last year from selling Euromarché, the hypermarkets chain. Group sales rose 33.5 per cent from FFr14.14bn to FFr18.85bn.

● Poliet, a subsidiary of the Paribas banking and industrial holdings group, saw net profits rise by 9.8 per cent to FFr290m in the first half. Sales were almost stagnant at FFr9.99bn, as against FFr9.02bn in the first six months of 1991.

INTERNATIONAL CAPITAL MARKETS

Referendum uncertainty puts pressure on Canadian bond prices

By Tracy Corrigan and Sara Webb in London and Patrick Harverson in New York

CANADIAN government bond prices dropped 1¼ points yesterday, as the Canadian dollar came under fire in the foreign exchange markets. The currency fell below key resistance levels against the US dollar, following pressure during recent trading sessions, and suffered against the yen, prompting some Japanese investors to sell Canadian bonds.

Fears about the outcome of

GOVERNMENT BONDS

the October 26 referendum on a package of constitutional measures have contributed to volatile conditions in Canada's financial markets. Yesterday, opposition leaders criticised Prime Minister Brian Mulroney for causing panic on financial markets with warnings that Canada could break apart if the No side wins the national unity referendum.

Support for the package has slipped since the deal was struck a month ago, according to recent polls. The bond market was further undermined by concern about the reception of yesterday's C$1.5bn government bond auction.

■ GERMAN bond prices ended slightly higher in thin trade yesterday. Activity was concentrated in the German money market where the government both drained and added liquidity in different areas of the market, prompting continued confusion over the Bundesbank's intentions over interest rates at Friday's council meeting.

However, the strength of the D-Mark, combined with growing fears over the German economy, may tip the scales in favour of a rate cut, according to some analysts. Speculation that the fluctuation band between the D-Mark and the French franc will be tightened is encouraging hopes of an interest rate cut, which would help support the franc.

The German bund futures contract on Liffe ended at 90.50, up from 90.34 at Monday's close.

■ FRENCH government bonds ended ¾ point lower, as hopes that France would join a fast-track to monetary union faded.

High money market rates continued to hamper activity in the bond market, where it is now very expensive to finance trading positions. The market has also become rather nervous about the French government's 1993 budget plans and the monthly auction of bonds later this week.

■ GILT prices recouped earlier losses to end the day virtually unchanged, as the market continued to trade nervously within a fairly narrow range. Comments by Mr Robin Leigh-Pemberton, governor of the Bank of England, suggesting that sterling's weakness would not leave room for further substantial rate cuts, helped depress sentiment.

The market "is still reorganising itself" in the wake of sterling's suspension from the ERM two weeks ago, according to Mr John Kendall, an economist at Baring.

Nevertheless, expectations of some reduction of interest rates in the near future continue to benefit the short end of the market, while longer-dated bonds have steadied.

The long gilt futures contract on Liffe ended at 97.17, slightly lower than Monday's close of 97.21.

■ JAPANESE government bonds rallied again yesterday as the yen continued to strengthen against the US dollar. However, worries that the government may issue deficit-financing bonds pulled both the cash and futures market down late in Tokyo trading and the market closed lower on the day. The yen reached a high of 119.38 to the dollar in Tokyo trading, and climbed further to reach 119.10 to the dollar in the London session. The strength of the Japanese currency has revived hopes recently of an easing in interest rates, pushing up bond prices.

The futures contract, which opened at 106.62, reached a high of 106.75 on the yen's strength. However, shortly before the market was due to close, a Japanese news service reported that the government would probably have to issue deficit-financing bonds. Dealers said the reports pushed bond prices down and the futures contract closed at 106.52.

Deficit-financing bonds are issued specifically to finance deficit spending in excess of revenue.

Traders said some of the selling at the end of the session may have been hedging ahead of today's expected Y800bn auction of 10-year bonds.

■ US Treasury prices eased slightly across the maturity range yesterday, despite further bad news on the economy.

In late trading, the benchmark 30-year government bond was down ⅛ at 98$\frac{29}{32}$, to yield 7.361 per cent. The two-year note was also slightly weaker, down ⅛ at 100$\frac{19}{32}$ to carry a yield of 3.804 per cent.

The day's figures continued to paint a bearish picture of economic conditions. The Conference Board's survey of consumer confidence fell from 59.0 in August to 56.4 in September, the third straight monthly fall and a worse figure than analysts expected, while the leading index of economic indicators fell 0.2 per cent in August.

Although both sets of data increased the chances that the Federal Reserve may ease monetary policy again, possibly after Friday's employment report, investors are cautious about pricing an interest rate cut into the market.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	106.6341	-1.030	8.99	8.99	8.75
BELGIUM		8.750	06/02	100.7500	-0.100	8.82	8.68	9.06
CANADA *		8.500	04/02	102.9300	-1.800	8.08	7.29	7.38
DENMARK		9.000	11/00	96.8050	-0.045	9.57	9.56	9.75
FRANCE	BTAN	8.500	03/97	98.7512	-0.425	8.82	8.67	9.61
	OAT	8.500	11/02	98.9050	-0.875	8.65	8.49	9.11
GERMANY		8.000	07/02	103.1050	+0.130	7.54	7.48	7.89
ITALY		12.000	05/02	91.2000	+0.845	14.14†	14.01	13.89
JAPAN	No 119	4.800	06/99	100.3826	-	4.73	4.82	4.74
	No 145	5.500	03/02	104.5247	-0.137	4.80	4.84	4.94
NETHERLANDS		8.250	06/02	102.5900	0.070	7.85	7.86	8.33
SPAIN		10.300	06/02	84.5250	-0.225	13.19	12.65	12.79
UK GILTS		10.000	11/96	105-06	-	8.47	8.64	9.36
		9.750	08/02	105-08	-	8.93	9.08	9.64
		9.000	10/08	97-30	-2/32	9.25	9.21	9.34
US TREASURY *		6.375	08/02	100-01	-4/32	6.36	6.61	6.58
		7.250	08/22	98-20	-9/32	7.36	7.42	7.38
ECU (French Govt)		8.500	03/02	94.6500	-0.450	9.37	9.22	9.83

London closing, *denotes New York closing. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Turmoil causes Swedish government to postpone Procordia privatisation

By Sara Webb

RECENT turmoil in the European financial markets

INTERNATIONAL EQUITY ISSUES

has taken its toll on the international equity issues business.

The Swedish government has decided to postpone the privatisation of Procordia, the Swedish food and pharmaceutical group, because of the unfavourable stock market conditions, and investment bankers claim that fewer companies are lining up to launch international equity offerings while the markets are in such an unsettled state.

The privatisation of Procordia was expected to take place this autumn, but has now been scheduled for the spring – provided stock market conditions prove more conducive.

The Swedish stock market has plummeted recently on worries about possible devaluation of the krona, concern over the troubled financial sector, and against a backdrop of very high interest rates.

The government agreed an economic package with the main opposition parties on September 20 aimed at boosting confidence in the Swedish economy and, at the same time, said it would postpone selling its shares in Procordia.

Bankers point out that, given the current state of the Swedish stock market, it could prove hard to drum up much retail interest in the offering. About half of the shares will be aimed at international investors, while the rest will be aimed at domestic buyers.

Procordia's stock market capitalisation has fallen to SKr35.3bn ($6.4bn) from SKr45.7bn at the end of May.

The Swedish state owns 40.4 per cent of Procordia's voting shares and 34.2 per cent of the total share capital. The other main shareholder in the company is Volvo, the Swedish car and truck manufacturer.

Repsol, the Spanish state-owned oil, gas and chemicals group, has also delayed its planned international equity offering until next year. However, the decision to postpone the issue was not related to market conditions but hinged on the fact that Repsol must wait for parliament to lift certain legal barriers.

Denmark produces tightly-priced $500m issue to top up its foreign reserves

By Richard Waters

DENMARK turned to the Eurobond market yesterday to help top up its foreign exchange reserves, producing an extremely tightly-priced $500m issue that brought sharp intakes of breath from some underwriters.

INTERNATIONAL BONDS

The lead-managers, though, reported that most of the paper was placed during the day, apparently disproving a view that borrowing costs in the international bond market would rise sharply after the events of recent days.

The five-year issue had attracted bids at a yield of over 45 basis points above US Treasuries, but Daiwa won the mandate at a bid below 30. At launch, the bid spread was 28.2 basis points over Treasuries.

Even the lead-managers said this was some four or five basis points below the market clearing level, though other banks said the yield should have been up to 10 basis points higher.

Demand was said to be strong from the Far East, with more than half the bonds sold being placed there overnight.

Daiwa said it and the two co-leads – Westdeutsche Landesbank and Warburg – had placed some 80 per cent of the $420m of bonds they had underwritten between them. That was a higher proportion than most others had thought possible given tight pricing.

After breaking syndicate, Daiwa stood behind the issue, picking up some bonds as the yield spread rose to around 32 basis points. That appeared comfortable with the break-even for the syndicate at around 34 basis points, however, and the spread tightened later to under 30.

The deal drew a mixture of grudging support and disbelief from other bankers. Even for a borrower renowned for squeezing every last basis point out of the market, the pricing was seen as very tight. Other bankers said only once the price had found its final level in the secondary market could the deal be judged.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Kingdom of Denmark	500	5.5	99.34	1997	25/15bp	Daiwa Europe
Republic of Argentina	250	8.25	100.06	1997	1⅞/1½%	CSFB
JDC Corp.(a)‡	100	(a)	100	1996	30/20bp	Nikko Europe
JDC Corp.(a)‡	100	(a)	100	1997	30/20bp	Nikko Europe
GUILDERS						
Electricite de France	200	7.875	100.7	1996	1/⅝%	ABN AMRO
D-MARKS						
San Paolo (Ldn)(c)★★‡	150	(c)	100	1997	-	San Paolo (Ffrt)
SWISS FRANCS						
Shinobu Foods(b)★★♦	40	3.25	100	1996	-	Nomura Bk(Switz.)

Final terms and non-callable unless stated. ★★Private placement. ♦With equity warrants. ‡Floating rate notes. a) Coupon pays 35bp above 6-month Libor. b) Final terms fixed on 15/10/92. Callable on 15/10/94 at 102% declining by ½% semi-annually. c) Coupon pays 6-month DM Libor.

International interest in Latin paper to be tested

By Richard Waters

A NEW spate of Latin American borrowings in the international bond markets is under way, further testing the interest of foreign investors for Latin American paper.

Yesterday saw the pricing of the latest issue from the Republic of Argentina, the third since its return to the international bond market. At $250m, with a maturity of five years – longer than it has previously attempted – the issue marks a new test of the country's acceptability internationally.

The bonds were priced yesterday to yield 300 basis points over US Treasuries – considerably higher than the spread of little more than 200 basis points that has been talked about in recent weeks. Discussions with potential investors proved that Argentina, still rated only a B1 credit by Moody's after a July up-grade, has not yet achieved such levels of financial acceptability.

Compared with the yield spread of some 400 basis points on another five-year issue from Telecom Argentina, the bonds were considered to be fairly priced, though an issue of this size is expected to take some time to sell.

Meanwhile, another new Latin credit is about to be presented to international investors – the Corporacion Andino de Fomento (CAF), the development fund for the Andean Pact countries (Venezuela, Ecuador, Peru and Colombia).

The $75m issue, led by Chemical Bank, is not expected to be launched for some weeks, after a road-show to potential investors. CAF is regarded as a good credit, since the Andean Pact countries are likely to regard their debts to the fund as ranking before other international commitments, said Mr Paul Luke, an economist with Morgan Grenfell in London.

In a further new issue from the region, Venezuela is preparing to borrow $115m. Unlike other borrowers, though, it is launching the bonds in Colombia in a move aimed at attracting some of the excess dollars in the country.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on September 29

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	107¾	108⅛	-⅛	4.55
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COPENHAGEN TEL 8 5/8 96 LFr	600	99¼	99⅛		9.29
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES — Issued, Bid, Offer, C.cpn: [illegible]

CONVERTIBLE BONDS — Issued, Cnv. price, Bid, Offer, Prem.: [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate. C.cpn = The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	7	55	15
Other Fixed Interest	3	3	9
Commercial, Industrial	177	414	834
Financial & Property	32	337	433
Oil & Gas	13	30	42
Plantations	2	1	6
Mines	7	75	65
Others	10	75	29
Totals	251	990	1,433

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
100	F.P.	-	99	90	Birkby	94	-1	15.25	-	7.4	-
100	F.P.	-	118	95	Broadgate Inv Trust	95		-	-	-	-
-	F.P.	-	33	30	Do. Warrants	33		-	-	-	-
-	F.P.	-	13	7	Dartmoor Warrants	11		-	-	-	-
-	F.P.	-	32	19	Dwyer A	19		-	-	-	-
-	F.P.	-	91	79	European Smaller Co's.	81		-	-	-	-
-	F.P.	-	23	18	Do. Warrants	19		-	-	-	-
-	F.P.	-	150	145	Finsbury Smlr Co's Zero Pf	149½		-	-	-	-
-	F.P.	-	253	203	SHIRESCOT	203		-	-	-	-
-	F.P.	-	31	30	Do Warrants	31		-	-	-	-
■	F.P.	-	1700	1700	TR Technology Units	1700		30.15	-	2.4	-
-	F.P.	-	14	10	Throg 1000 Smlr Co's Wts	12	-1	-	-	-	-
-	F.P.	-	16	11	Yorkshire TV Warrants	11	-1	-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price £	+ or -
100p	F.P.	-	110p	105½p	Falcon Inv Tst Zero Div Pf	107½p	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -
27	Nil	12/11	8pm	4½pm	Aviva Petroleum	4½pm	-½

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Forecast or estimated annualised dividend rate, cover based on previous year's earnings. z Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of capitalisation. † Introduction. § Placing price. ‡‡ Reintroduction. ¶ Unlisted securities market. ¢ Issued in connection with reorganisation, merger or takeover. pm Price at a premium. ■ Units comprising 4 Ords. and 7 Zero Div. Prefs. and 4 Stepped Pref. shares.

TRADITIONAL OPTIONS

- First Dealings Sept. 28
- Last Dealings Oct. 9
- Last Declarations Dec. 30
- For settlement Jan. 11

3-month call rate indications are also shown on this page.

Calls in Bass, BM Group and Ranks Hovis McDougall. Put in Hazlewood Foods.

LIFFE EQUITY OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allied Lyons (*611)	550	67	77	88	3	9	12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brit Aero (*117)	110	23	31	35	14	23	30
	120	19	27	31	20	28	36
	130	15	24	27	25	34	42

Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
BAA	700	42	60	77	17	27	35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dixons (*220)	220	19	27	33	15	21	25
	240	11	18	25	27	30	35

Option		Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
Eurotunnel	390	48	73	82	23	30	52
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Euro FT-SE Calls 698 Puts 1,288
*Underlying security price. † Long dated expiry months. Premiums shown are based on closing offer prices.

TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS	p	Cadburys	35	Hanson	15	Ratners	2½	Land Sec.	32
Allied-Lyons	47	Charter Cons.	44	ICI	85	Reed Intl	42	MEPC	22
Amstrad	4	Comm Union	42	Ladbroke	20	Sears	7	■ OILS	
Astec (BSR)	3½	Courtaulds	38	Legal & Gen	27	SmKl Bchm A	34	Aviva Pet	6
BAT Inds	60	Eurotunnel	32	Lex Service	19	TI	26	BP	22
BOC	49	FKI	8	Lloyds Bank	34	TSB	11½	Burmah Castrol	56
BTR	35	FNFC	8	Lonhro	9	Tesco	17	Conroy Pet	6
Barclays	26	Forte	17	Lucas Inds	11	Thorn EMI	56	Gaelic Res	½
Blue Circle	19	GKN	33	Marks Spencer	25	T & N	15	Premier Cons	2½
Boots	31	Gen Accident	40	NatWest Bank	26	Unilever	75	Shell	42
Bowater	56	GEC	17	P & O Dfd	32	Vickers	9	Tuskar Res	½
Brit Aerospace	30	Glaxo	15	Racal Elect	6	Wellcome	71	■ MINES	
British Steel	8	Grand Met	34	RHM	14	■ PROPERTY		RTZ	50
BT	25	GRE	13	Rank Org	42	Brit Land	15		

Squeeze on margins hits T&S

By Andrew Bolger

T&S STORE., has attributed a fall in pre-tax profits to a squeeze on margins at Supercigs, its tobacco retailing subsidiary, and Dillons, its chain of newsagents.

In the first half of 1992 pre-tax profits fell nearly 8 per cent, from £7.08m to £6.54m, in spite of a 9 per cent increase in turnover to £166.1m.

Cigarette volumes were affected by another increase in duty but sales of newspapers and confectionery held up well. Neighbourhood and convenience store retailing fared better than Supercigs, which continued to suffer from fewer customers on the high streets.

Mr Kevin Threlfall, chairman and chief executive, said: "We have to do something about reduced consumer demand, rather than blaming it."

Tony Andrews

Kevin Threlfall: doing something about reduced demand

The growing chain of Dillons convenience stores, currently at 94, lifted turnover 33 per cent to £32.1m and trading profits 41 per cent to £1.99m.

Although turnover from the 212 Supercigs outlets rose 5 per cent to £83.92m, trading profit dropped 9 per cent to £2.04m. The group maintained its 3 per cent share of the national cigarette market, which had fallen by about 8 per cent overall.

The Dillons chain of 283 newsagents lifted turnover by 4.5 per cent to £50.1m but saw trading profits dip 2.5 per cent to £2.55m.

Although the group's overall trading profits rose 5 per cent to £6.57m, the pre-tax figure was reduced by an interest payment of £50,000, which compared with interest receivable of £200,000 last time.

T&S said the air of uncertainty in the property market had restricted the sale and purchase of businesses, and profits from disposals fell from £623,000 to £222,000.

A reduction in shop stock coupled with tight warehouse controls reversed the year-end cash position from an overdraft of £15m to cash of £5m.

Earnings per share rose to 7.69p (7.57p), while the interim dividend is lifted to 2.4p (2.25p).

● COMMENT

Mr Threlfall has stripped out more than £1m of annualised costsby slimming the management structure, closing four regional offices and making more use of information technology, although the benefit will be felt more next year. Forecast pre-tax profits of £13m put the shares, down 5p to 181p yesterday, on a prospective multiple of about 12. That seems undemanding, given the quality of the management and success of its news-based convenience store formula. The group perhaps suffers from being associated so strongly with tobacco, but the contribution from cigarettes is set to diminish. The share price may also be overhung by concerns about another big acquisition, following its £53.9m purchase of the Dillons and Preedy chains from Next, which required a rights issue in 1989. T&S might well be interested in a convenience store chain, with a warehouse and distribution network in the south, but said the rights issue required for such a deal would probably be closer to 20 per cent of the group's size.

Banks fail to agree borrowing facilities for Mosaic

By Paul Cheeseright, Midlands Correspondent

FAILURE TO agree borrowing facilities with its bankers yesterday led Mosaic Investments to delay the redemption of preference shares, withdraw its planned final dividend and suspend temporarily the listing of its shares at 60p.

This is the second cloud in two months which has passed over the mini-conglomerate, based in Birmingham.

In July the board decided Mosaic needed a stronger focus on packaging and promotion activities, sold the engineering division and deposed Mr Brian Disbury as chairman.

In his stead it installed Mr Gregory Hutchings, who owns 8.5 per cent of the shares but is better known as chief executive of Tomkins, a larger conglomerate.

Mosaic's current problems spring from the demand by Mr Rodney Day for redemption of £2.99m worth of convertible preference shares, acquired when his advertising company was taken over.

The redemption should have taken place on Monday, but Mosaic was not able to reach an agreement with its bankers on financing this one-off payment.

According to Mr Leon Angrave, the managing director, this was because "of the complexity and the term of the facilities rather than the amount." Mosaic was asking for funds to meet that demand in addition to normal working capital.

Three banks were involved, Mr Angrave said, although he would not name them. In the last available annual report for Mosaic, Midland Bank in West Bromwich and Barclays Bank in Swindon were listed as the group's principal bankers.

Mosaic had been negotiating with the banks, and with Mr Day, for between two and three weeks. It expected the bank negotiations to be completed in about three weeks.

However, because of the subordination of ordinary shareholders to preference holders, inability to redeem the preference shares on the due date had led to the withdrawal of the recommended 1991-92 final dividend of 5.5p, which would have cost £897,000.

The hiatus led in turn to the suspension of the shares 2p higher than their overnight close, giving the group a market value of £10m.

The shares, in spite of recent market firmness, have been at the bottom of their trading range, suggesting that the City remained unimpressed with the changes of last July.

Mr Angrave said there was no reason why the group should change shape because of the problems with the preference shares and the dividend.

Mosaic told the Stock Exchange it was trading profitably.

It had net borrowings of £500,000 and pro forma net assets of £12m.

Profits warning from GPA

By Daniel Green

TRADING PROFITS at GPA, the world's largest aircraft leasing company, will show "a significant reduction" in the second quarter compared with the first, warned Mr Tony Ryan, chairman, at yesterday's annual meeting.

The company has been hit by costs arising from the failure of its $800m (£468m) share offering in May and a squeeze on lease rental margins.

One result is that GPA is likely to make provisions and charges in the accounts for the year ending in March 1993.

Mr Ryan said that those "may be material in the context of annual earnings."

He confirmed that the company was planning a follow-up to its successful Aircraft Lease Portfolio Securitisation (ALPS) aircraft securitisation issue earlier this year.

Alps 92-2 will involve the sale of 18 aircraft for $752m and should go ahead next month. "We have received preliminary indications from the major debt rating agencies that they will give an AA rating to the senior debt in this fund," said Mr Ryan.

Progress was also being made over the raising of more equity capital. "This is likely to take the form of an issue of convertible preference shares," he said. "Discussions [with the company's main shareholders] have been constructive."

He outlined the agreement in principle with Boeing, the aircraft maker, to defer delivery of aircraft worth $5bn and added that other deals with suppliers "will make $650m of additional liquidity available to GPA over the next 18 months."

Nevertheless, the forces behind the flotation failure and the postponement of orders remained.

"GPA continues to be affected by uncertainty in the world economic scene, by a temporary oversupply of aircraft, the consequences of the withdrawal of our flotation and by lease rental margins and aircraft sales levels that have been adversely affected by recessional influences."

The oversupply of aircraft and low sales levels are important to GPA because much of the company's profits arise from the sale of second-hand aircraft after they have been leased for a few years.

Mr Ryan painted an optimistic picture for the longer term. Some 193 aircraft had been leased so far this year compared with 111 in the same period last year.

However, "the benefits of much of the business we are writing today will not be reflected in our financial statements until the aircraft concerned are delivered to customers and start earning revenue."

● GPA has leased two aircraft to Air Ukraine International, a newly-formed subsidiary of the national airline Air Ukraine.

The 150-seat Boeing 737-400s go into service in November.

Boosey & Hawkes out of tune with City as shares dive 95p

By Peggy Hollinger

BOOSEY & Hawkes, one of Britain's oldest instrument makers, yesterday announced a 10 per cent increase in interim pre-tax profits to £1.44m, but warned that the global recession was beginning to dampen growth.

The City marked the shares down by 95p to 865p on the news, in a generally steady market.

Mr Richard Holland, chief executive, said he was baffled by the fall in the share price. "The result we produced is a very good one in the current climate," he said. "All we are saying is we must accept a slower rate of growth compared with the 20 per cent of previous years."

The dividend was raised by 9 per cent to 6p, while earnings advanced almost 13 per cent to 18.6p (16.5p).

Mr Holland said the group expected to report progress in the second half similar to that of the first six months. However, profits would be depressed by about £200,000 as a result of the recent sterling crisis. He said the devaluation of sterling would eventually benefit the company as it sought to increase exports.

Boosey reported an 8 per cent increase in sales to £26.5m for the six months to June 30.

Growth was slower in the music publishing division partly due to the depth of the US recession. However, Mr Holland said the rate of growth represented a "more normal" level, following last year's sharp improvement.

The instrument making division felt the effects of economic slowdown in Japan, which accounts for about 20 per cent of sales. Profits in this division had advanced, although not as rapidly as last year. Mr Holland said there was a risk of a further setback in Japan, although he remained optimistic about the longer-term outlook.

A redundancy programme in the UK and Germany resulted in the loss of about 40 jobs. There would be no significant redundancy costs, Mr Holland said, although the benefits would feed through next year.

Interest charges rose about 10 per cent to £1m, due to the element of foreign currency debt. Borrowings as a percentage of shareholders' funds was at a seasonal high of 88 per cent. Gearing at the year end was expected to be lower than the 69 per cent in 1991.

Socks pull Sherwood up to £8.2m midway

By Peter Pearse

HELPED by the boost given to its garments division by its two socks businesses, Sherwood Group lifted pre-tax profits by 25 per cent to £8.18m in the first half of 1992.

In May the company, which makes lace and produces bras, lingerie and socks, graduated from the USM, where it had been for six years, to a full listing. At the same time there was a 4-for-1 scrip issue.

The pre-tax advance from last time's £6.55m was struck on turnover ahead 20 per cent at £66m (£55.2m).

Operating margins rose from 14.2 to 14.3 per cent, while the pre-tax margin grew to from 11.9 to 12.4 per cent.

Mr David Parker, chairman, said that some £29m of group sales were overseas.

Turnover in the lace division declined from £41.3m to £37m: of that, £27m, or 73 per cent of divisional sales, was

Lace operating profits were down almost £1m at £5.6m and the operating margin slipped from 15.8 to 15.1 per cent.

Mr Parker said sales had been lost on the commodity end, which had had "a more difficult time on price". The almost three-dimensional lace produced for the top end of the market on Sherwood's new Textronic machines helped maintain margins, he said.

The garments side lifted profits, turnover and operating margin, from £1.32m to £3.87m, from £14.4m to £29.5m and from 9.2 to 13.1 per cent respectively. The two socks businesses – Samuel Eden and Charles W Hall acquired for a combined £26m in June 1991 and January 1992 – made the group one of the UK's leading sock producers.

Capital expenditure in the half was £8m with 77 per cent of that going on Jacatronic and Textronic machines. One Textronic machine produces about £200,000 of turnover: Sherwood currently has eight and will have 12 next year when capital expenditure for the 12 months will fall to £9.5m.

Gearing rose from 44 per cent at the December year-end to 59 per cent at June 30.

Earnings were static on the enlarged equity at 5.3p per share and the interim dividend is raised 15 per cent to 0.9p (0.78p).

Capital Inds to pay £7m for Samuel Jones

By Andrew Bolger

Capital Industries, the financial services and industrial group, is to pay £7m for Samuel Jones, which makes laminated paper products for labelling and packaging.

Capital also said it would raise a total of £8.74m, through a 21-for-20 rights issue at 78p per share, to fund the acquisition and raise net cash. Capital's shares closed 6p lower at 86p.

Rutland Trust, from which Capital Industries was spun off, has committed £4.5m to underwriting the acquisition and is likely to raise its stake in Capital from 37.4 per cent to 45 per cent. Mr Michael Langdon, deputy chairman and chief executive of Rutland Trust, will join the board of Capital as deputy chairman.

Capital meanwhile reported a pre-tax profit of £988,000 (£640,000) on turnover of £12.4m in the six months to June 30. Earnings per share fell to 4.9p (7.3p). The interim dividend is 1.6p (nil).

Enterprise Oil raising a further $280m in US

By Neil Buckley

ENTERPRISE OIL, the independent exploration and production company, is raising a further $280m (£164m) in the US through an initial public offering of American Depositary Sharesand a further tranche of cumulative preferred shares.

It filed a registration statement with the US Securities and Exchange Commission for 6.75m ADSs, each representing three ordinary shares. The issue, which will be listed on the New York Stock Exchange, will raise about about $150m.

The ordinary shares represent approximately 5 per cent of Enterprise's issued ordinary shares.

It is also raising $127.5m through a second tranche of 5.1m cumulative prefered shares. It raised $172.5m in the first tranche in June.

Mr Graham Hearne, chairman and chief executive, said the US listing of ADSs was a "strategic step" in Enterprise's US funding programme, which has already included the issue of debt and fixed-rate preference shares. Proceeds will be used for general corporate purposes.

BIL names 'future' Gibbs Mew chief

Brierley Investments Limited, the New Zealand investment company which has made a hostile £11m bid for Gibbs Mew, the Salisbury-based brewing and commercial property company, has announced the name of the man who would become the target's managing director in the event of the bid being successful, writes Peter Pearse.

He is Mr David Stephen, who since 1991 has been involved in Trent Taverns, the operator of 67 pubs in the Midlands.

Mr Roger Gibbs, company secretary of Gibbs Mew, said the announcement was "silly and extraordinary".

Gilbert Eliott closes UK equity business

By Richard Waters

Girozentrale Gilbert Eliott, the UK stockbroker owned by Girocredit Bank of Austria, yesterday bowed to the overcapacity in the London stock market and closed down its UK equity business with the loss of 25 jobs.

The firm, bought by the Austrian bank in 1986, had already disposed of its fixed income business to Hoare Govett last year, though it will continue to be active in Austrian shares in London.

Mr Julian Knight, managing director and one of those being made redundant, blamed the firm's demise partly on the concentration of equity business in the hands of a small group of market makers. That, and the growth of so-called "soft commission" business, which allows investors to receive broking services at cut-price rates, meant that there was too little commission business left to make it worthwhile continuing as an agency broker, he said.

Higher interest charges push down Prestwick

By Paul Taylor

PRESTWICK HOLDINGS, the Strathclyde-based manufacturer of printed circuit boards used in the computer, electronics and telecommunications industries, yesterday reported a decline in full-year pre-tax profits, despite a 20 per cent increase in turnover.

Pre-tax profits slipped to £91,000 in the year to July 31 compared with £109,000 last time, mainly reflecting sharply higher net interest charges which grew to £455,000 (£64,000) as the group raised its borrowings to help fund acquisitions and internal investments.

The company is dipping into reserves to pay an unchanged final dividend of 1p per share, which with the interim dividend, will maintain the total at 1.5p. The board said it felt justified in recommending the payment out of reserves because of the prospects for the group.

Turnover increased to £30.4m (£25.3m), and profits before tax and interest grew to £546,000 (£173,000), after charging exceptional items of £76,000 (£373,000.)

During the year Prestwick completed four acquisitions, Band Electronics, Prestwick-GTN, Electroconnect and Northumbria Circuits, at a total cost of £704,000.

Following the acquisition of Electroconnect in October last year Prestwick spent £3m on a capital investment programme on advanced design and manufacturing technology designed to enhance the group's ability to meet its customers' needs from initial design concept to volume manufacturing.

Mr Wayne Osman, chief executive, said the company had invested about £6m during the year, and had moved from zero borrowings to net borrowings of about £4m at year-end.

After allowing for a £15,000 tax credit (nil) and £216,000 (£218,000) in preference share dividends the group posted an increased loss of £110,033 (£108,780), equivalent to losses per share of 0.5p (same).

US courts approve GWR reorganisation

By Peggy Hollinger

GREAT Western Resources, the US-based natural resources company, appears to have won its 18-month struggle for survival with the approval by US bankruptcy courts of a reorganisation plan for the company's coal subsidiaries.

GWR, which is quoted on the USM in London, put its coal subsidiaries into Chapter 11 – the US bankruptcy proceeding which protects a company from creditors – last April. The move followed a prolonged dispute over pricing and contracts with the company's largest coal customer, the South Carolina Public Services Authority (Santee Cooper).

The decision to accept the reorganisation plan, which included a new coal contract with Santee Cooper and a restructuring of the company's $82m debt, will become official on October 11 if there are no appeals.

Mr William Phillips, vice president and chief financial officer, said the decision was "very good news... It sets the stage for getting business back to normal." However, any benefits would not materialise in the year which ends today. The company is likely to report a substantial loss when the results are published in December.

Mr Phillips said Great Western expected to deliver some 3.5m tonnes of coal over the next 12 months, compared with the 3m delivered in 1990.

However, the new contract with Santee Cooper sets a coal price of about $30 a tonne, against $36 previously. The difference in price would be narrowed through production efficiencies, said Mr Phillips.

The decision also frees $31m in coal payments withheld by Santee Cooper. GWR plans to pay Citibank, its main creditor, some $15m. The balance would be used for capital expenditure, and the development of oil and gas assets.

Watts Blake Bearne advances to £3.74m

By Andrew Taylor, Construction Correspondent

PRE-TAX profits of Watts Blake Bearne, the world's largest supplier of ball clay, rose by 7 per cent to £3.74m during the first six months of this year.

Almost all the improvement was due to higher contributions from new acquisitions, according to Mr John Pike, managing director.

The group declared a maintained interim dividend of 2.7p on earnings increased from 11.6p to 12p per share. Turnover was 8.6 per cent higher at £34.1m.

An 11.5 per cent increase in operating profits to £4.2m was offset by higher interest charges up from £264,000 to £457,000 following last year's purchase of the Didier clay operations in Germany.

Almost two-thirds of the group's sales are used for the manufacture of sanitary ware and wall and floor tiles. Its performance therefore is very dependent upon the health of the construction industry.

The group was particularly satisfied with a turnround in the US from a £100,000 loss to a £250,000 profit. This was due a first-time contribution from its new Texas business as well as more efficient use of management and marketing overheads.

In Germany the group had a full six months' contribution from Didier compared with just two months in the corresponding period last year. German profits as a result rose by about £430,000.

UK profits fell by about £350,000. The group said that it was a measure of the quality of its business that it had managed to maintain profits in such difficult trading conditions.

Net debt of £10.08m was lower than the £10.27m recorded at the end of last year and represented gearing of just under 17 per cent.

The shares closed 23p up at 325p.

Kenwood warns on trading

By Richard Gourlay

KENWOOD Appliances, the kitchen equipment company, has warned shareholders that its markets have worsened since it became the first in a line of post-election flotations.

Only days before its freedom to comment is restricted by the start of its two month close period, the company told analysts their forecasts were too optimistic.

"Retail trade fell off a cliff for us in July and August," said Mr Tim Parker, chief executive. "We are not expecting to make up that shortfall in volume."

On Monday, Kenwood shares fell 42p following analysts' shaving of profits forecasts. The price had drifted from a small premium to its 285p June flotation to 254p before sterling's devaluation gave the stock a fillip. Kenwood closed 7p lower at 238p yesterday.

Devaluation will help the company, said Mr Parker, as "sixty five per cent of our business is overseas".

When the company came to the market the directors were confident the current year would provide further growth. "But since then the picture is much more difficult in the UK and in the European economy, particularly Germany."

"But that is not to say we cannot yet achieve growth this year," said Mr Parker. The group is increasing market share with no unexpected impact on operating margins and introducing new models.

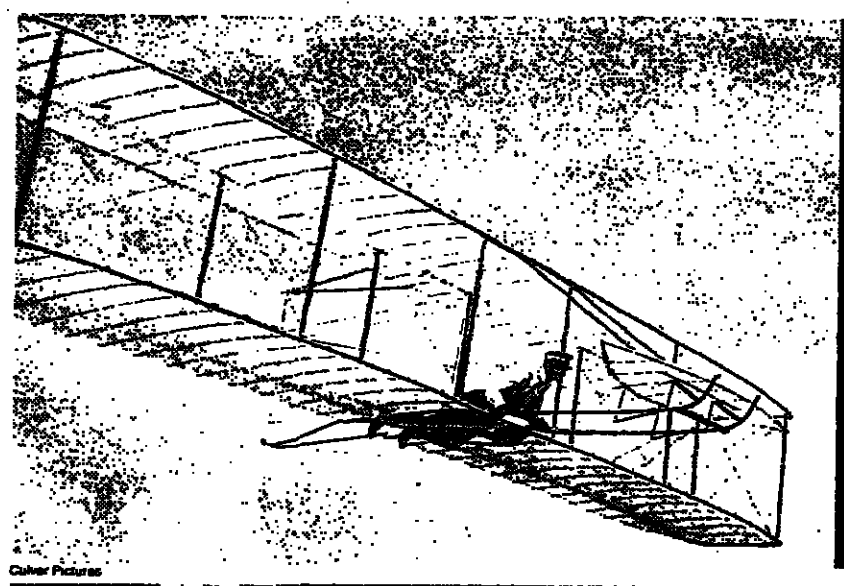
DIVIDENDS ANNOUNCED

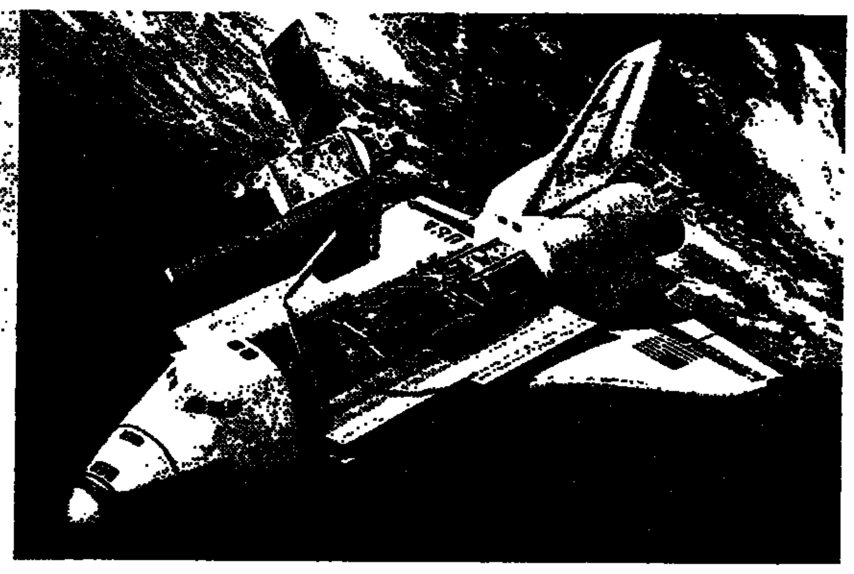
	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
BB&EA ....fin	nil	-	nil	nil	0.5
Boosey & Hawkes ...int	6	Nov 13	5.6	-	20
Capital Inds ....int	1.6	Dec 3	-	-	2
CST Asia ....fin	nil	-	0.35	nil	0.35
Global Group § ....int	0.2	Dec 18	0.2	-	0.5
Jeff'son Smurfit ....int	1.2036♣	Feb 1	-	‡‡	1.101*
Prestwick ....fin	1	Dec 14	1	1.5	1.5
Richards Group ....int	1.65	Nov 13	1.65	-	4.4
Sears ....int	1	Dec 7	1.525	-‡	5.355
Sherwood Group ......int	0.9	Nov 23	0.78*	-	2.28*
Surrey Group § ....nil		-	0.05	nil	0.05
Thorpe (FW) ....fin	1.7	Nov 20	1.45	2.5	2.15
T&S Stores ....int	2.4	Nov 27	2.25	-	5.5
Watts Blake ....int	2.7	Nov 25	2.7	-	9.3

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Final will be reduced by similar percentage as interim. ♣Irish currency. ‡‡makes 3.66p to date.

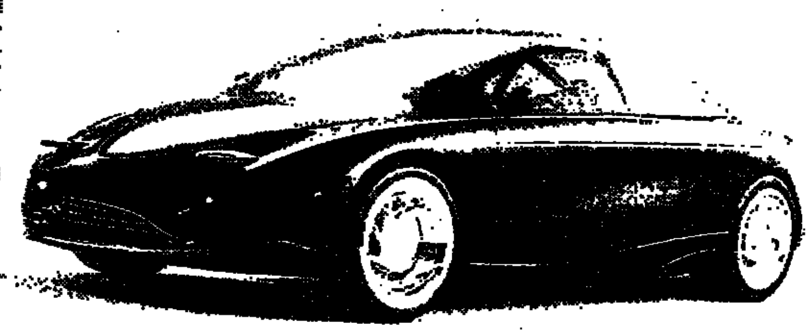
C&C for Human Potential

Here's how some notable 100-year-olds are heading into the 21st century



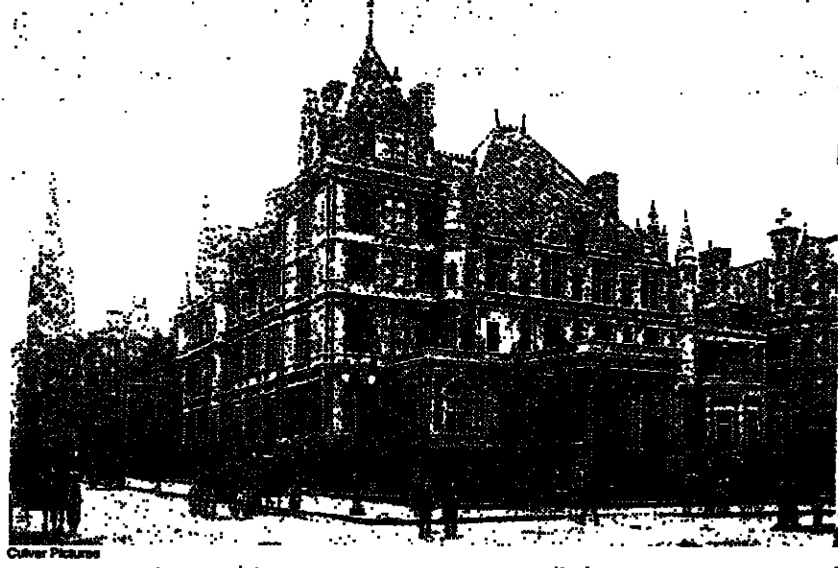


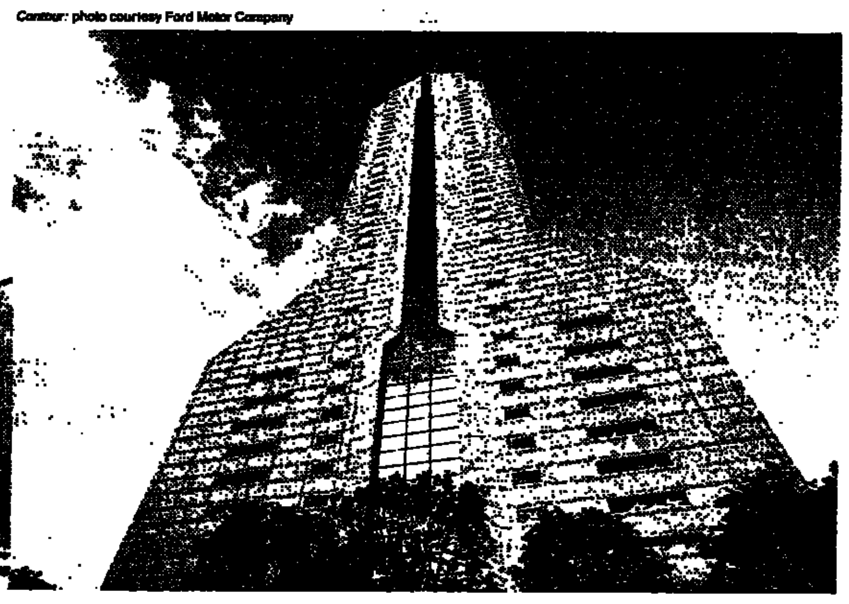
Culver Pictures



Culver Pictures

Concept: photo courtesy Ford Motor Company





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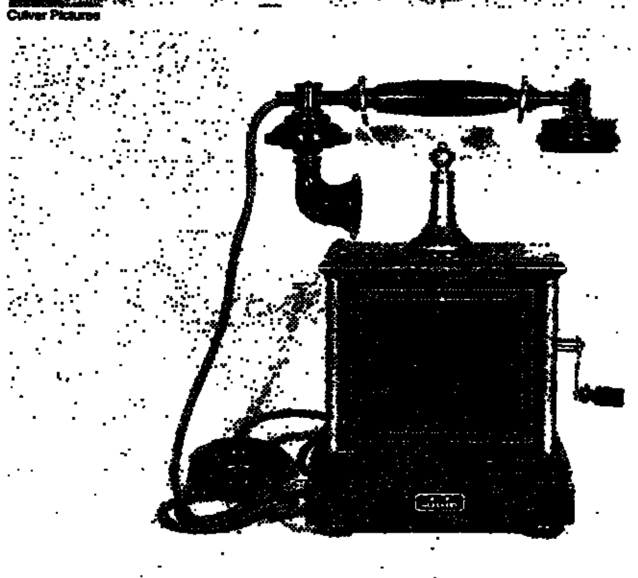

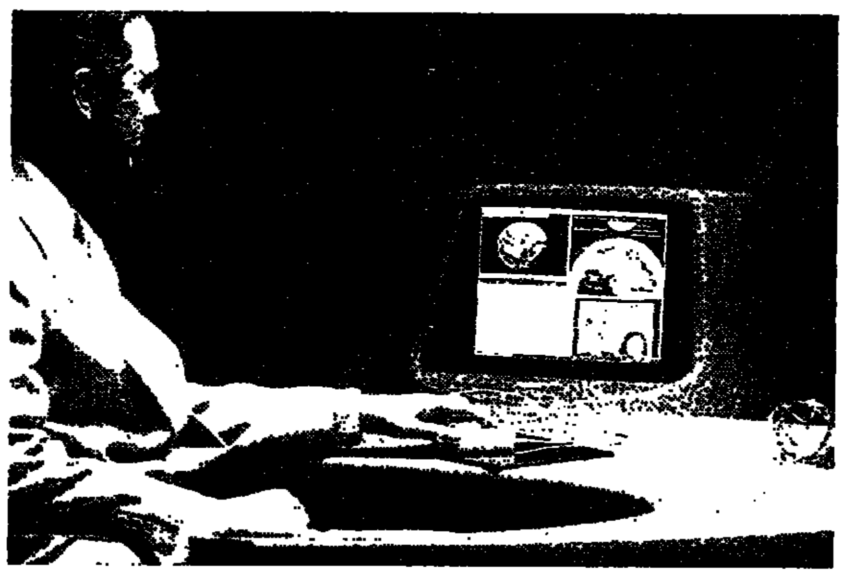

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Our new corporate mark symbolises a commitment to our customers into the 21st century—to provide "thinking technology" that maximises human potential.

NEC

COMPANY NEWS: UK

Sears continues retailing drive

By Jane Fuller

SEARS' drive to focus on retailing and mail order may be finalised this year with the disposal of its Galliford housebuilding business.

Mr Geoffrey Maitland Smith, chairman, said this could incur a further extraordinary charge this year on top of the £84m included in the interim results. All but £2m of this sum was for the shedding of men's wear through the sale, announced last week, of Fosters and Your Price to management for £1.

Galliford used to contribute up to £30m a year in trading profits, but the group decided to give it up in July 1990. The only provision made then was for the carrying costs "to avoid it impacting on the profit and loss account".

The portfolio had since been run down from £109m to £59m and £11m cash was released in the first half of this year. The original plan was "to develop it out by July 1994". The group was considering whether to dispose of it within the next six months, possibly via a management buy-out.

Housing sales, "tax planning" and cash generation had helped reduce net debt by £75m in July 1991 to £133m this time, gearing of 11.3 per cent. Net interest costs, however, rose to £8m (£7.3m) as the amount capitalised in Galliford was cut from £4.9m to £2.8m.

Recession finally caught up with the home shopping division, where trading profit fell from £15.3m to £11.9m on sales of £264.9m (£249.8m). "It hit the wall quickly last year leaving a cost overhang," said Mr Liam Strong, chief executive.

The subsequent cuts had included 300 jobs, 6 per cent of the workforce. The annual savings would amount to between £3m and £5m.

Sears paid £477m for the Freemans mail order business in 1988 and failed in its bid to expand it last year by buying Grattan from Next.

Mr Strong said he hoped to push Freemans' annual trading profit up to more than £30m.

In speciality retailing, women's wear was the biggest contributor with £6.5m (£5.6m) profit on sales of £243.6m (£214m). Miss Selfridge – which claims 20 per cent of the disco clothing market – and Wallis, aimed at 25 to 35-year-olds, had performed strongly.

Selfridges department store in London, which has a division to itself, enhanced its productivity in a period of sluggish sales caused by a lack of tourists. Trading profit rose to £5.5m (£4.9m) on sales of £94.6m (£92.7m).

Winding up petitions add new twist to Blystad bid

By Jane Fuller

A DISAGREEMENT between directors of the Blystad Group over the conditions of a £7.5m paper bid has taken a new twist with the issue of winding up petitions against two companies connected with three of the directors, all members of the Norwegian Blystad family.

The petitions are part of a campaign by directors outside the family to recover a $3.9m (£2.3m) loan to Sokana Industries, which is controlled by the family. Sokana and the South Pacific Banking Corporation are the subject of the petitions.

Three Blystad brothers holding 65 per cent of the loss-making Blystad, which owns KCA Drilling, the UK independent offshore oil service company, have accepted the 5.4p-a-share bid from Abbot Holdings, a private company set up by Mr Alasdair Locke.

The non-family board members, including the managing director and finance director, and Henry Ansbacher, financial advisers, oppose the offer because of a potential conflict of interest over the loan from Blystad to Sokana Industries.

Abbot's approach to the loan, set out in the press release announcing the bid, is not to take any "precipitate" enforcement action, although it does not rule out the loan being recovered at a later date.

Family values take on Lou Grant

Karen Zagor on the background to Pat Robertson's bid for TVS

THE REV Pat Robertson, the US televangelist, and Lou Grant, the liberal journalist of the eponymous television series, would make strange bedfellows.

But TVS Entertainment, which will lose its independent television franchise for southern England at the end of this year, looks likely to bring them together.

If the £38m bid for TVS from Mr Robertson's US-based International Family Entertainment succeeds, he will control his first overseas television company. And UK viewers will have access to the wholesome family-oriented programming that has made IFE successful in the US.

Mr Robertson has been scouting the market for ways to expand his broadcasting business, according to Mr Christopher Dixon, an analyst at PaineWebber. TVS appeared to be a good opportunity.

For IFE, one of the most attractive aspects of TVS is MTM, its US production company, with a library that includes Hill Street Blues and Lou Grant. Such shows may not be to Mr Robertson's personal tastes but he has an uncanny ability to tap into the American consciousness.

His 700 Club talk show, launched in 1960 and still going strong, inspired a host of other televangelists. And the Family Channel, with its stated dedication to family-oriented programming, hit the airwaves three years before Mr Ronald Reagan was first elected president and more than a decade before "family values" became the theme of this year's presidential election.

Pat Robertson: able to tap into American consciousness

Mr Robertson, who controls IFE with his son Timothy, was one of the few leading televangelists to emerge from the 1980s with his reputation unsullied by fraud or sexual misconduct.

Since April, when IFE's public stock offering left observers marvelling at his ability to transform a $183,000 (£107,000) investment into stock valued at flotation at about $90m, he has come in for an unprecedented amount of scrutiny.

Mr Robertson started the Family Channel in 1977, as a branch of his Christian Broadcasting Network, financed largely with donations from viewers. By the late 1980s, the Family Channel was so successful it had started to threaten Christian Broadcasting's non-profit status.

In 1989 the Robertsons incorporated IFE with Tele-Communications, the world's biggest cable television business, as a minority investor. Tele-Communications makes an interesting bedfellow for International Family. Its alleged strong-arm tactics have led Senator Albert Gore to dub the company the "ringleader" of the "cable Cosa Nostra".

The Robertsons invested $150,000 in the new company, buying 4.5m shares at 3.33 cents each, later buying another tranche for about 2.22 cents.

Although the Robertsons' convertible shares in IFE account for only 6m of the of the 36.2m shares in issue, their voting power adds up to 60 per cent, thanks to their ownership of Class A shares which carry ten votes per share. The common stock carries one vote per share.

In 1990 the Family Channel was sold to IFE in a deal worth $250m. The deal left Christian Broadcasting with about 4.8m shares in IFE. A university founded by Mr Robertson holds another 9m shares, while 10m shares are held by the public.

The Robertsons have profited handsomely. Although the stock has recently fallen to about $11½ from $15 at the time of the initial public offering, it is unlikely to plunge as far as the few cents the Robertsons originally paid, barring disaster.

Meanwhile, the Family Channel goes from strength to strength, attracting almost as many viewers as the MTV rock video channel. Last year, it earned net profits of about $19.8m on revenues of almost $113.7m, against profits of $14.4m on revenues of $93.4m a year earlier.

Looking to the UK, IFE expects to make a version of the Family Channel available on cable systems. UK viewers may not, however, be treated to the Mr Robertson's 700 Club performance on IFE channels.

The publicly-held IFE is careful to stress its independence from the Christian Broadcasting Network. The Family Channel's programming is distinctly secular, including shows such as The Waltons and Father Knows Best. Should Mr Robertson choose to use the UK Family Channel for his 700 Club, he would have to buy air time like any other broadcaster.

NEWS DIGEST

Surrey Group back in the red

SURREY GROUP, the USM-quoted bookmaker, returned to losses in the second half of the year to March 31. And with further substantial losses expected in the present six months it is changing its acquisition strategy in order to cut debts.

At its flotation in 1989 it intended to reach critical mass for economies of scale by buying betting offices. However, the chairman said that the level of borrowing had become excessive compared with its ability to service it in the light of poor trading.

In the year to the end of March pre-tax profits were £5,000 against losses of £216,000 in the previous year. Interim profits had been £117,000.

From turnover of £49.6m (£35.8m) operating profits were £766,000 including £611,000 from the sale of betting offices and other operating income.

An extraordinary charge of £398,000, relating to the company's former cricket centres which went into liquidation before the full consideration had been paid by the new owners, left the retained loss at £295,000 (£404,000).

Earnings per share came out at 0.07p, helped by a tax credit of £98,000 (£65,000), against losses of 0.15p. The final dividend is being passed. Last time there was a single final payment of 0.05p.

Shipping side behind Global's 31% fall

The recession-hit shipping side left pre-tax profits at Global Group down 31 per cent from £959,000 to £658,000 in the first half of 1992.

Operating profits for shipping were halved at £408,000 (£806,000). Falling volumes at Goole and difficult conditions for the fork lift business were responsible.

However the food activities increased profits from £500,000 to £668,000. Canterbury Foods had an "excellent" first half and the result for meat trading had been "very satisfactory".

Group turnover in the first half for this USM-quoted company increased 7 per cent to £38.5m (£36.1m). Net interest payable was higher at £418,000 (£347,000). Earnings per share were 0.4p (0.59p) and the interim dividend is again 0.2p.

Further expansion for FW Thorpe

FW Thorpe, manufacturer of lighting equipment, lifted turnover 11 per cent and pre-tax profit 14 per cent in the year ended June 30 1992.

Turnover rose to £14.7m (£13.3m) with Thorlux Lighting lifting home sales by 8 per cent and exports by 39 per cent. Operating surplus showed a lower level of expansion because of pricing pressures affecting margins and the launch of Compact Lighting.

Pre-tax profit worked through at £1.83m (£1.6m). Earnings per share were 9.7p (8.2p) and the final dividend is 1.7p for a total of 2.5p (2.15p).

Richards Group profits halved

Having suffered badly from the recession, Richards Group has decided to pursue a strategy which will reduce independence on the UK construction sector.

A new "sand laundering" service is to be introduced to the UK foundry industry, the steel supports system is seeking additional business from the oil and petrochemical industries, and a significant sales effort is being made by steel supports in continental Europe.

The group's latest results, for the half year ended June 30, reveal a drop in turnover from £6.75m to £5.54m and a halving of the pre-tax profit to £256,000 (£505,000).

Earnings per share dropped to 2.29p (4.48p) but the interim dividend is held at 1.65p.

British Building incurs £1.2m loss

British Building & Engineering Appliances, the building products group which is 75 per cent owned by BM Group, reported a pre-tax loss of £1.17m for the 15 months to June 30. For the year to April 4 1991 the loss was £575,000.

Mr Graham Brealey, who became chairman in March, said the period had been "the most exciting in the group's 55-year history." During the 15 months the group "radically changed its shape" following the acquisition of 12 businesses, including the main businesses of the building products and services division of BM Group.

He was confident that with a full year's contribution from the acquired companies, the group would return to profitability in the current year.

Turnover for the period totalled £7.79m (£4.45m). The pre-tax loss was after administrative expenses of £3.26m (£1.97m).

Losses per share amounted to 53.8p (30.9p). There is no dividend for the period (0.5p) but the group intends paying both an interim and final for the current year.

COMMODITIES AND AGRICULTURE

Biggest nickel supplier searches for cost savings

By Kenneth Gooding, Mining Correspondent

INCO, THE western world's largest nickel supplier with about 25 per cent of the market, is in talks with trade union representatives about the action it must take to stem losses caused by extremely low prices.

The unions have been asked to put forward suggestions after hearing graphic descriptions of the company's plight at meetings in Ontario and Manitoba. Mr Bob Allen, Inco's vice president of public affairs, said that union responses were still awaited but there would probably be an announcement at the end of this week. "We have a number of options, including production shutdowns or shorter work weeks."

However, he dismissed metal market rumours that Inco, which produces about 113,000 tonnes of nickel a year, might cut production for six months as "absurd".

Nickel prices on the London Metal Exchange rallied from a two and a half-year low yesterday as conviction grew that Inco and Falconbridge, another Canadian nickel producer, would announce output cuts soon. Nickel for delivery in three months, which fell by $172.50 a tonne on Monday, closed up $5 last night at $6,787 a tonne or $3.08 a lb.

Mr Ted Arnold, analyst at the Merrill Lynch financial services group, said: "They have to do something soon if we are not to drown in a sea of nickel".

Mr Nick Moore, analyst at Ord Minnett, part of the Westpac banking group, said: "Rumour has it that Inco and Falconbridge are preparing to make cuts, but only when nickel falls below $6,610 a tonne or $3 a lb. But why wait until then? If it's so inevitable, why not head it off? Prospects of a demand-led recovery are receding and an improvement in the price can only be brought about by further producer cutbacks".

Nickel demand is suffering both from a fall in stainless steel production – stainless accounts for 60 per cent of nickel consumption – down by 3 per cent in the first half of this year. This resulted in a similar drop in nickel demand.

Prices have also been depressed by a substantial increase in Russian exports to the west. Through most of the 1980s communist countries' net exports to the west amounted to about 35,000 tonnes a year. Russian exports reached 120,000 tonnes in 1990 and 1991 and this year are expected to be about that level again.

Mr Roger Chaplin, analyst at Credit Lyonnais Laing, said: "With western economies recovering more slowly than expected at the start of 1992, the outlook for nickel markets in the medium term appears grim." He expected the nickel price to average $3.50 a lb this year and said it would be doing well to reach $4 next year.

Mr Chaplin suggested that Inco's all-in production costs were about $3.25 a lb so it was suffering losses in the second half of 1992 and, "unless there is a substantial rise in the nickel price, it will make losses again next year".

Copper smelters 'face stiff competition'

By Kenneth Gooding

COPPER SMELTERS face a difficult time in the second half of the 1990s because of substantial growth in solvent-extraction, electrowinning (SX-EW) technology which does away with the smelting process, suggests the Metals & Minerals Research Services consultancy group.

"The smelting industry may be faced with an unappetising choice between radical pruning or persistently poor market conditions," said Mr Stephen Briggs, author of an MMRS report on the market for custom copper concentrates.

The report suggests that in the next five years there will be an increase of more than 20 per cent in total mine production potential and smelter capacity growth. However, more than half of mine capacity growth will come from SX-EW operations.

The near doubling of SX-EW's share of total mine capacity and the widespread desire of mining companies to have their own smelting capability will narrow the base of the custom mining sector even though the range of custom smelters will not diminish.

"If the copper market is to be balanced and concentrates [an intermediate material used to feed smelters] are to be available, primary smelter capacity utilisation rates will be forced to drop – and sharply so by the mid-1990s. This will have profound consequences for the custom concentrate market," said Mr Briggs.

Treatment charges for copper concentrates "will be forced back in favour of miners over the next five years, either to choke off some of the growth in smelter capacity or to reflect increasingly tight concentrate supplies."

The Market for Custom Copper Concentrates to 1997, £4,500 from MMRS, 2 Henry Street, Bath, Avon, BA1 1JT, UK.

Pact disappointment hits coffee market

By David Blackwell

COFFEE PRICES fell sharply in London yesterday as the market registered disappointment at the lack of definitive progress towards a new international coffee agreement at talks in London scheduled to end today.

The London November robusta contract closed at $774 a tonne, down $23 on the day, after recovering from an earlier low of $763. In New York the December arabica contract was off by 1.40 cents in late trading at 53.85 cents a lb.

Analysts believe the markets will head downwards again if today's final communique from the International Coffee Organisation is as anodyne as they expect.

On Monday last week the markets shot up on optimism over the ICO talks, and the London robusta contract reached $816 a tonne. "We have seen this euphoria at the start of each ICO meeting," said Ms Judith Ganes, an analyst at Merrill Lynch in New York. "And then as the meetings turned sour, the market quickly reversed course and tumbled to new contract lows."

It appears that nine days of talks will end with only one concrete sign of progress – a proper definition of the "universal quota" – and that was agreed last Tuesday. Such an export quota system would be the foundation of any pact, but problems remained of defining controls and "selectivity" – which would allow consumers to import the type of coffee they want.

The principles of export control regulation have been broadly agreed in principle, and proposals on selectivity were being discussed late last night. But this was not likely to satisfy the markets, which were looking for definite progress towards a new pact, according to Mr Lawrence Eagles, analyst with GNI, the London futures broker.

The ICO will meet again in December, but between now and then there is little chance of substantive negotiations behind the scenes. The US, the biggest consumer, has the Presidential elections coming up, and Brazil, the biggest producer, has presidential troubles of its own.

Mauritius plans to overhaul flagging sugar industry

Julian Ozanne on the challenges faced by Africa's third largest producer in a changing market

A CRITICAL strategic review of the Mauritian sugar industry is being undertaken by the government and producers as the sector, the backbone of the economy, confronts the prospect of declining revenues for its annual production of 600,000 to 650,000 tonnes.

Production last year dropped to 611,340 tonnes from 624,302 tonnes in 1990 as a result of drought and continued contraction in the area planted. Concerns are mounting in Mauritius that this trend will continue as revenues are forecast to stagnate or decline as the European Community considers reducing the guaranteed support price paid to African Caribbean Pacific (ACP) producers under the Lomé convention.

A major overhaul of the industry is now critical if Mauritius, Africa's third largest sugar producer after South Africa and Egypt, is to remain competitive and productive in a changing world market.

A report drawn up by the Mauritius Chamber of Agriculture lays down the guidelines for a reappraisal of the sector. It warns that the industry has come to a crossroads and that if major hard policy decisions are not confronted now the industry's decline is inevitable.

At the heart of the concerns voiced by the 19 big estate producers, who account for 62 per cent of cane production, is the need for a fundamental reassessment of the role of state intervention in the industry.

However, there appear to be growing differences between the powerful sugar lobby and the government over what role the state should play. The Chamber of Agriculture says that the sugar industry is heavily regulated and that significant liberalisation is vital to restore the sector's profitability and preserve its international competitiveness. "If reform does not take place," the chamber warns, "there is a very real risk that resources will gradually be siphoned off from the sugar industry to other sectors."

The chamber has put forward a number of policy recommendations to a joint government-private sector working committee, which include:

- Price liberalisation – The industry argues that price controls on domestic sales make Mauritian sugar the cheapest in the world and force the industry to subsidise the consumer by up to 50 per cent of the cost of production.
- Reform and Reduction in taxation, export duty and government cesses.
- Abolition of restrictions which prevent a miller from closing an economically unviable factory at will.
- Improved incentives for investment in the milling sector.

Already this year the government has responded to some demands made by producers. The June budget provided for the issue of tax free debentures by sugar companies for the modernisation of their equipment and removed customs duty on mechanical harvesters. In August the government also substantially increased the domestic price of sugar injecting MR60m (£2m) into the industry. Mr Madan Dulloo, agriculture minister, says other measures will be considered to amend the Sugar Industry Efficiency Act before the end of the year. But he warns that the government is not going to give in to the "propaganda" of sugar barons and that, given the pivotal importance of the sector to the economy, any policy changes will have to be balanced within a political, economic and social context and will have to ensure the protection of the 33,000 small planters.

The debate on the proper role of government in the Mauritian sugar industry is likely to continue for several years and any changes will probably be minor.

In the meantime both government and producers are working on the areas on which they do agree, which include:

- The need significantly to boost sugar yields from the present rate for the estate sector of 8.5 tonnes a hectare (3,4 tonnes an acre) to 10 tonnes or more by better irrigation techniques.
- Encouraging small holder farmers to regroup in Land Unit Management Areas to enable them to take advantage of better mechanisation for land preparation and harvesting.
- Continuing the development of an international marketing policy which increases annual sales of 75,000 tonnes of premium sugars like demerara and molasses sugar.
- Finding new ways to add value to by-products of the sugar industry and intensify agricultural diversification.

If the government and producers can find creative ways to implement many of these measures the industry hopes to restore its competitiveness and profitability and to restore production to the 1973 peak level of more than 700,000 tonnes to reduce costs further and be able to capitalise on new opportunities on the international market.

Gummer urges subsidy block on polluters

By David Green

THE EUROPEAN Community should have the power to suspend payment of subsidies to farmers who abuse the environment, Mr John Gummer, the UK minister of agriculture and current president of the EC Agricultural Council, said yesterday.

He said individual governments could withdraw payments under national schemes but did not have the power to do so under community schemes.

Mr Gummer was speaking after chairing an informal meeting of EC agriculture ministers at Cambridge.

He said those few farmers who behaved in a way that was clearly damaging to the environment should not receive EC support. In the absence of such powers, the Common Agricultural Policy suffered as a result of public opinion, which wanted farmers to not only produce food but to be guardians of the countryside.

Mr Gummer said he did not believe that environmental protection should be an optional choice for the countries of Europe.

He wanted to see duties of environmental care written in to as many of the EC market support systems as possible.

However, he made clear that not all EC agriculture ministers agreed with the need for more environmental regulations at a time when their farmers were already trying to come to terms with reform of the CAP.

- "Mr Gummer's environmental fig leaf has finally wilted," was the comment of Mr Hugh Raven, co-ordinator of the Safe Alliance (Sustainable Agriculture, Food and Environment), on the minister's statement, which he said acknowledged "his dismal failure to have environmental criteria incorporated as part of the CAP support mechanisms."

Chilean mines minister replaced

By Pablo Bachelet in Santiago

A NEW Chilean minister of mining, Mr Alejandro Hales, has been sworn in to replace Mr Juan Hamilton, who has resigned to prepare his campaign for election to the senate next year.

Mr Hales, who held the same post in the 1960s, will automatically become chairman of Codelco, the Chilean Copper Corporation, the world's biggest copper company. He is close to the ruling Christian Democrat party, of which Mr Hamilton is also a member.

The change comes at a time when Codelco officials are negotiating for a sharp increase in the investment budget for 1993 to make room for the construction of the Radomiro Tomic mine, a $500m project planned to be producing 150,000 tonnes a year of copper cathodes by 1995.

Codelco's 1992 budget was $430m and officials say they need at least $600m to develop Radomiro Tomic, the company's most promising new deposit. The mine is Codelco's largest investment since it was nationalised in 1971.

Selecting a financing strategy for Radomiro Tomic will be a key decision for Mr Hales. Mr Hamilton had created a special task force, made up of officials from the mining ministry and Codelco, to propose ways to raise cash for the project.

The task force will also look into the possibility of divesting assets that are not linked to Codelco's mining activities, including a hospital next to the Chuquicamata mine and the Tocopilla power station, which supplies energy to Chuquicamata and BHP-RTZ's La Escondida copper mine.

Mr Hamilton's tenure as minister was marked by several semi-public skirmishes with Mr Alejandro Noemi, Codelco's chief executive. The latest, which took place last week, was over the appointment by Mr Hamilton of Mr Osvaldo de Castro as vice president of new business, officials in the company say.

Mr Noemi's choice for the job was Mr Jorge Bande, at present vice president of planning. Finally, Mr Noemi and Mr Hamilton worked out a formula whereby Mr de Castro will only take on negotiations for the El Abra mine, a promising project for which Codelco needs to form a joint venture.

Orange juice prices plunge

NEW YORK orange juice futures plunged again yesterday on prospects of a big Florida orange crop. Private estimates have ranged from 155m to 175m boxes. But some analysts believe the US Department of Agriculture figure, to be released on October 8, could be as high as 200m. In late trading the November contract was down 3.8 cents at 104.8 cents a lb.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,640-1,700 (1,680-1,745).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.50 (2.25-2.50).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.65-0.75 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 16.00-16.60 (18.00-18.70).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 135-150 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.20-2.30 (2.25-2.30).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 48-57 (50-59).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.85-2.00 (1.95-2.10).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 8.05 (same).

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+850	to 1,367,000
Copper	+3,650	to 291,875
Lead	+4,650	to 169,725
Nickel	+138	to 45,750
Zinc	+4,975	to 362,950
Tin	−56	to 14,905

WORLD COMMODITIES PRICES

MARKET REPORT

Sentiment in most of the LME base metals remained depressed by rising inventories, slack demand, and sluggish economic growth prospects. The latter factor was underlined by US economic data – August leading indicators fell 0.2 per cent, while September consumer confidence dropped to 56.4 from 59. **COPPER** continued to decline, dropping to the lowest levels for three months with stocks rising again. Final business was at the low of $2,360 for three-month metal, $19 down from Monday. In contrast **ZINC** rallied in kerb trading on late short covering to end at the day's highs after encountering solid support at $1,280 for three-month metal. **PLATINUM** closed easier in London and futures prices were down at midday in New York, under pressure from the downbeat US economic data and a fall in the Nikkei stock average. Japan is the world's biggest platinum importer. New York **COTTON** futures were lower in all months at midday but somewhat recovered from fresh life of contract lows. Analysts said there was no fresh fundamental influence, but prices continued to be dogged by world oversupply and sluggish demand for US cotton.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Nov)		+ or -
Dubai	$18.30-8.40z	-.175
Brent Blend (dated)	$20.15-0.20	-.075
Brent Blend (Nov)	$20.30-0.35	-.075
W.T.I (1 pm est)	$21.70-1.75z	

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$217-219	-1
Gas Oil	$191-192	-2
Heavy Fuel Oil	$96-98	+2
Naphtha	$189-190	-1
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$348.15	
Silver (per troy oz)♣	375.00c	+0.5
Platinum (per troy oz)	$364.35	-1.75
Palladium (per troy oz)	$93.25	+0.5
Copper (US Producer)	111.0c	+1
Lead (US Producer)	38.4c	
Tin (Kuala Lumpur market)	15.87	-0.08
Tin (New York)	294.5c	-2
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	108.36p	-0.97*
Sheep (live weight)†♣	70.58p	+1.03*
Pigs (live weight)†	76.06p	-4.97*
London daily sugar (raw)	$226.0w	+0.2
London daily sugar (white)	$261.0w	+0.5
Tate and Lyle export price	£237.0	-2.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£141.0	
Wheat (US Dark Northern)	Unq	
Rubber (Nov)♥	56.25p	-0.5
Rubber (Dec)♥	56.25p	
Rubber (KL RSS No 1 Jul)	220.5m	
Coconut oil (Philippines)§	$495.0y	-10
Palm Oil (Malaysian)§	$385.0y	
Copra (Philippines)§	$315	-2.5
Soyabeans (US)	£143.5w	-2.5
Cotton "A" Index	54.05c	-1.25
Wooltops (64s Super)	408p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Oct/Dec. w-Sep/Oct. y-Nov/Dec. u-Oct. z-Nov. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Oct	195.00	195.00	198.00 194.00
Dec	194.00	194.00	192.00 192.00
Mar	194.00	194.00	194.00
May	197.00	196.00	198.00 195.60
Aug	202.00		198.00
White	**Close**	**Previous**	**High/Low**
Dec	254.00	254.00	254.50 253.50
Mar	254.50	255.00	255.50 254.50
May	258.50	256.40	256.80 256.00
Aug	262.00	261.30	261.60 260.50
Oct	250.10	249.70	249.50

Turnover: Raw 833 (196)lots of 50 tonnes. White 390 (882) Paris- White (FFr per tonne): Dec 1231.23 Mar 1264.64

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
Nov	20.32	40.40	20.40 20.30
Dec	20.36	20.42	20.42 20.33
Jan	20.32	20.37	20.38 20.30
Feb	20.21	20.23	20.21
Mar	20.08	20.08	20.14 20.08
Jun	19.79	19.82	19.80 19.79
IPE Index	20.41	20.39	

Turnover 16207 (12375)

GAS OIL – IPE ($/tonne)

	Close	Previous	High/Low
Oct	188.75	190.00	190.25 188.25
Nov	192.25	193.50	193.75 192.00
Dec	195.00	195.75	196.00 194.25
Jan	195.25	196.25	196.50 194.75
Feb	192.50	193.00	193.00 191.75
Mar	186.25	187.00	187.00 186.25
Apr	181.50	181.75	182.50 181.50
May	179.00	179.00	180.50 179.00
Jun	178.00	178.50	178.00

Turnover 11910 (7318) lots of 100 tonnes

JUTE
C and F Dundee: BTC US$370, BWC US$385, BTD US$335, BWD US$345. C and F Antwerp: BTC US$345, BWC US$345, BTD US$325, BWD US$325.

COTTON
LIVERPOOL- Spot and shipment sales for the week ending 25 September amounted to 136 tonnes against 190 tonnes in the previous week. Sales were moderate and occurred mainly in American growths.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Sep	633	637	635 635
Dec	645	648	658 641
Mar	672	676	686 671
May	690	694	702 689
Jul	708	712	720 707
Sep	723	729	736 722
Dec	747	755	762 749
Mar	774	782	790 773
Jul	819	815	816

Turnover: 6958 (8356) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Sep 25 740.06 (729.26) 10 day average for Sep 28 754.18 (757.22)

COFFEE – London FOX ($/tonne)

	Close	Previous	High/Low
Sep	755	781	774 750
Nov	774	797	794 763
Jan	793	807	804 780
Mar	807	817	811 795
May	795	812	808 790
Jul	800	816	807 798

Turnover:6849 (1830) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Sep 25: Comp. daily 46.10 (46.67) 15 day average 47.06 (47.00)

POTATOES – London FOX (£/tonne)

	Close	Previous	High/Low
Apr	60.1	60.0	61.0 60.0

Turnover 67 (131) lots of 20 tonnes.

SOYAMEAL – London FOX (£/tonne)

	Close	Previous	High/Low
Oct	130.50	130.50	130.50

Turnover 226 (0) lots of 20 tonnes.

FREIGHT – London FOX ($10/index point)

	Close	Previous	High/Low
Oct	1108	1100	1110 1100
Nov	1130	1120	1135 1124
Jan	1165	1155	1168 1160
Apr	1212		1215 1205
Jul	1087		1087 1085
Oct	1280	1280	1280
BFI	1042	1043	1042

Turnover 171 (26)

GRAINS – London FOX (£/tonne)

Wheat	Close	Previous	High/Low
Nov	120.20	120.15	120.20 119.75
Jan	123.40	123.35	123.40 123.00
Mar	126.50	126.50	126.50 126.30
May	129.40	129.40	129.50 129.25
Barley	**Close**	**Previous**	**High/Low**
Nov	117.20		117.25 116.90
Jan	121.25	121.25	121.30 120.90
Mar	124.25		124.30 123.90
May	126.20		126.20

Turnover: Wheat 332 (429), Barley 289 (35). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Nov	103.0	103.0	103.0
Feb	98.2	98.3	98.0
Apr	103.0	101.5	100.5

Turnover7 (20) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 42,679 lots
Cash	1258-59	1261-62		1259-59.5		
3 months	1282-82.5	1285-85.5	1284/1282	1282.5-83	1283-84	180,479 lots
Copper, Grade A (£ per tonne)						Total daily turnover 39,931 lots
Cash	1318-20	1367-68	1334/1333.5	1333.5-34		
3 months	1350-51	1388-400	1378/1350	1264-65	1363-64	153,771 lots
Lead (£ per tonne)						Total daily turnover 5,148 lots
Cash	330.5-31.5	331-32		326-27		
3 months	343-44	345-46	344/340	339.5-40	343-43.5	28,146 lots
Nickel ($ per tonne)						Total daily turnover 5,329 lots
Cash	6710-15	6700-10	6683/6681	6682-83		
3 months	6785-90	6780-85	6800/6740	6764-65	6785-90	28,607 lots
Tin ($ per tonne)						Total daily turnover 3,069 lots
Cash	6355-65	6370-80	6392	6390-92		
3 months	6425-30	6440-50	6505/6405	6455-60	6410-15	12,168 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 19,367 lots
Cash	1289-90	1302-04	1285/1282	1283-85		
3 months	1286-87	1301-02	1297/1280	1281-82	1296-97	63,716 lots

LME Closing £/$ rate: SPOT: 1.7695 3 months: 1.7461 6 months: 1.7279 9 months: 1.7092

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	348.00-348.30	
Opening	347.40-347.80	
Morning fix	347.70	198.858
Afternoon fix	347.50	198.106
Day's high	348.70-349.00	
Day's low	346.90-347.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.20	6 months	2.23
2 months	2.20	12 months	2.33
3 months	2.20		

Silver fix	p/troy oz	US cts equiv
Spot	211.55	372.50
3 months	216.20	375.35
6 months	220.50	378.35
12 months	229.00	384.75

GOLD COINS

	$ price	£ equivalent
Krugerrand	348.00-348.00	197.00-198.00
Maple leaf	359.15-361.50	-
New Sovereign	83.50-85.50	48.00-49.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Oct	Jan	Oct	Jan
1250	17	52	3	14
1300	3	25	35	36
1350	3	9	85	70
Copper (Grade A)	**Calls**		**Puts**	
2350	14	61	17	51
2400	3	39	55	78
2450	3	23	103	112
Coffee	**Nov**	**Jan**	**Nov**	**Jan**
700	76	101	2	8
750	36	63	12	20
800	13	36	39	43
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
625	38	70	18	23
650	24	55	29	33
675	15	42	45	45
Brent Crude	**Nov**	**Dec**	**Nov**	**Dec**
2000			13	25
2050	18	41	32	48
2100	7	22	75	-

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	348.2	347.8	348.5	347.0
Nov	349.0	348.5	0	0
Dec	349.9	349.4	350.6	348.3
Feb	351.3	350.8	351.5	350.0
Apr	352.7	352.2	352.8	351.2
Jun	354.2	353.7	354.0	354.0
Aug	355.8	355.3	355.7	355.7
Oct	357.5	357.0	0	0
Dec	359.3	358.8	359.4	358.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	367.6	370.5	369.0	367.0
Jan	363.1	366.1	364.5	362.5
Apr	361.6	364.6	361.0	361.0
Jul	361.6	364.6	0	0
Oct	364.6	367.6	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	372.6	373.3	0	0
Nov	373.2	373.7	0	0
Dec	374.8	375.3	377.0	372.5
Jan	376.0	376.5	0	0
Mar	378.3	378.8	379.5	376.0
May	380.7	381.1	381.0	379.0
Jul	383.0	383.4	385.0	385.0
Sep	385.5	385.9	0	0
Dec	389.5	389.9	389.5	388.5
Jan	390.7	391.1	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	104.40	104.00	104.50	103.85
Nov	104.95	104.45	105.00	104.35
Dec	105.30	104.80	105.45	104.60
Jan	105.56	105.10	105.60	105.00
Feb	105.80	105.35	0	0
Mar	106.00	105.55	106.00	105.45
Apr	105.90	105.45	0	0
May	105.85	105.35	0	0
Jun	105.80	105.25	0	0
Jul	105.75	105.15	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	8.49	8.68	8.62	8.44
Mar	8.72	8.72	8.79	8.69
May	8.78	8.77	8.85	8.76
Jul	8.80	8.80	8.84	8.80
Oct	8.76	8.77	8.77	8.76

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Nov	21.87	21.76	21.81	21.62
Dec	21.60	21.66	21.72	21.55
Jan	21.54	21.59	21.62	21.50
Feb	21.42	21.46	21.49	21.39
Mar	21.30	21.34	21.36	21.29
Apr	21.18	21.21	21.23	21.17
May	21.07	21.09	21.11	21.06
Jun	20.98	21.00	21.00	20.98
Jul	20.91	20.92	20.92	20.88
Aug	20.83	20.84	20.82	20.80

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Oct	62.94	63.20	63.70	62.70
Nov	63.55	63.84	64.35	63.30
Dec	64.35	64.48	64.95	64.10
Jan	64.77	64.90	65.20	64.60
Feb	63.90	64.00	64.15	63.70
Mar	61.50	61.60	61.65	61.35
Apr	59.45	59.55	59.50	59.50
May	57.95	58.05	0	0
Jun	56.95	57.05	57.10	57.10
Jul	56.70	56.80	0	0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	996	983	1005	987
Mar	1044	1035	1058	1040
May	1075	1062	1083	1074
Jul	1108	1095	1113	1102
Sep	1139	1126	0	0
Dec	1170	1157	1168	1168
Mar	1209	1196	0	0
May	1234	1221	0	0
Jul	1271	1258	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	54.10	55.25	54.90	53.60
Mar	55.35	56.35	56.00	54.75
May	58.50	59.50	59.10	58.10
Jul	59.70	60.85	60.50	59.70
Sep	60.85	61.95	61.80	60.80
Dec	63.50	64.25	64.00	63.50

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	54.40	54.50	54.85	53.95
Dec	52.44	52.12	52.48	51.50
Mar	53.28	52.97	53.25	52.37
May	53.95	53.80	53.95	53.15
Jul	54.45	54.32	54.50	53.60
Oct	55.10	55.18	55.40	55.00
Dec	55.43	55.40	55.65	55.05
Mar	56.15	56.15	56.10	56.10

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	104.80	108.60	105.75	104.80
Jan	105.75	110.00	107.75	105.50
Mar	106.80	110.10	108.40	106.80
May	108.25	112.55	109.50	108.00
Jul	107.75	112.15	109.00	108.00
Sep	107.75	112.15	109.00	109.00
Nov	107.75	112.15	109.00	109.00
Jan	107.75	112.15	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Sep.29	Sep.28	mnth ago	yr ago
1552.2	1565.5	1516.6	1621.7

DOW JONES (Base: Dec. 31 1974 = 100)

	Sep.28	Sep.25	mnth ago	yr ago
Spot	115.69	116.68	117.45	116.20
Futures	114.52	115.48	116.66	123.06

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	541/6	538/4	542/4	537/2
Jan	548/4	545/6	549/4	544/2
Mar	564/6	552/6	558/2	551/4
May	562/2	560/2	563/4	559/4
Jul	569/4	567/0	570/6	566/2
Aug	570/0	567/6	570/0	569/0
Sep	569/0	566/4	569/0	569/0
Nov	575/2	573/0	575/6	573/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	18.71	18.73	18.76	18.60
Dec	18.99	18.99	19.04	18.86
Jan	19.16	19.15	19.21	19.00
Mar	19.41	19.39	19.45	19.28
May	19.65	19.65	19.70	19.58
Jul	19.88	19.88	19.93	19.76
Aug	19.98	20.00	20.08	19.93
Sep	20.08	20.09	20.17	20.05

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	185.0	183.4	185.1	183.4
Dec	185.8	184.2	186.0	184.3
Jan	185.9	184.5	186.2	184.7
Mar	185.7	184.7	186.4	184.9
May	186.0	184.8	186.5	185.1
Jul	187.2	186.0	187.7	186.2
Aug	188.0	186.9	188.0	187.5
Sep	188.2	188.0	0	0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	215/4	213/4	216/0	213/0
Mar	224/6	222/4	225/2	222/2
May	230/6	228/4	231/2	228/4
Jul	235/2	233/2	235/2	232/6
Sep	236/0	234/0	236/2	234/0
Dec	238/4	237/2	238/6	237/0
Mar	245/2	244/0	245/2	244/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	347/6	347/2	348/4	343/6
Mar	348/2	348/2	349/4	344/6
May	339/6	339/6	340/4	336/6
Jul	319/0	317/6	319/0	316/0
Sep	323/6	323/4	323/6	322/4
Dec	334/4	334/0	334/4	333/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	75.175	75.375	75.600	74.975
Dec	73.425	73.475	73.800	73.275
Feb	71.700	71.750	72.025	71.600
Apr	72.600	72.650	72.825	72.550
Jun	69.550	69.675	69.800	69.525
Aug	68.250	68.350	68.425	68.250
Oct	68.375	68.300	68.425	68.375

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	42.000	41.950	42.275	41.875
Dec	42.475	42.400	42.800	42.300
Feb	41.475	41.300	41.800	41.350
Apr	39.900	39.750	39.950	39.675
Jun	44.900	44.800	45.075	44.700
Jul	44.550	44.300	44.700	44.450
Aug	43.450	43.400	43.450	43.050
Oct	40.600	40.400	40.600	40.500

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	38.675	38.750	39.150	38.550
Mar	38.425	38.600	38.900	38.375
May	39.850	40.025	40.250	39.800
Jul	40.100	40.075	40.350	40.050
Aug	39.300	39.300	0	0

LONDON STOCK EXCHANGE

FT-SE recovers losses in late rally

By Terry Byland, UK Stock Market Editor

A SOMEWHAT surprising rally in the UK stock market yesterday afternoon was accompanied by a spate of rumours of impending developments, ranging from a bid for a stock in the FT-SE list to cuts in German interest rates. Some traders sounded sceptical, however, pointing out that fund portfolios were being polished up for the close tonight of the third quarter of the year, and that stock index futures had been bid up heavily yesterday.

By the close, the Footsie had recovered all and more of its early setback of 28.5 points and the final reading of 2,565.5 showed a net gain on the day of 5.5 points.

The strong upswing towards the end of the session was encouraged by a powerful recovery in the pound against the D-mark. In the background, however, uncertainty over the economic policies of the UK government and the outlook for domestic interest rates continued to restrain activity.

There was still room for confusion over the near term prospects for a change in UK economic policies. Evidence of further strains over Europe inside Britain's governing Conservative party, together with the progress of the annual conference of the Labour opposition party, added to the general uncertainty.

The stock market reacted to a strong warning against taking risks with sterling from Mr Robin Leigh-Pemberton, the Governor of the Bank of England. The City of London read this as a discouragement for early cuts in base rates. Mr John Major, the UK prime minister, reiterated his belief that he can persuade other European leaders to his view on the problems within the ERM.

Account Dealing Dates		
*First Dealings: Sep 21	Oct 5	Oct 19
Option Declarations: Oct 1	Oct 15	Oct 29
Last Dealings: Oct 2	Oct 16	Oct 30
Account Day: Oct 12	Oct 26	Nov 9

*New time dealings may take place from 8.30 am two business days earlier.

Equity trading volume, lower in the first half of the trading session, turned smartly higher when the market rallied. The day's Seaq total of 533.8m shares compared with 487.6m on Monday, when retail business worth £1.2bn maintained the significant upturn in business seen since Britain's departure from the European monetary system.

The Footsie Index was helped by a recovery in the pharmaceutical stocks which have borne the brunt of London's reaction to comments in the US presidential campaign from Bill Clinton on medical spending.

But domestic stocks remained uneasy after this week's heavy brokerage downgradings of ICI cast a cloud over the more optimistic earnings valuation put on the market in the wake of Britain's withdrawal from the ERM and the cut in UK base rates.

An indication of more favourable attitudes was shown in a sharp rise in shares in Sears, the leading UK store group and owner of Selfridge's store in London's Oxford Street, despite confirmation of a widely-predicted cut in the dividend payout. However, the rest of the retail sector stocks remained weak yesterday after the Sears board said there was still no sign of any recovery in consumer spending.

Renewed worries over the levels of consumer and business debt were also reflected in further selling of bank stocks which are now fast losing the gains achieved in the initial response to the market's hopes of lower interest rates.

FINANCIAL TIMES STOCK INDICES

	Sept 29	Sept 28	Sept 25	Sept 24	Sept 23	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	89.56	89.65	89.70	89.78	89.77	87.56	90.11 (14/9)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.27	104.26	104.50	104.60	104.43	96.93	106.46 (14/9)	97.15 (2/1)	106.35 (6/7/92)	50.53 (3/1/75)
Ordinary Share●	1876.6	1873.1	1914.0	1936.7	1901.8	2035.9	2149.7 (22/5)	1670.0 (1/9)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	74.8	77.1	78.8	79.3	80.5	158.9	160.6 (10/1)	65.0 (10/9)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2565.5	2560.0	2601.0	2621.2	2580.5	2645.6	2737.8 (11/5)	2281.0 (25/8)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1080.97	1082.26	1114.64	1121.06	1117.60	1178.95	1248.79 (11/5)	1029.56 (25/8)	1248.79 (11/5/92)	938.82 (16/1/91)
●Ord Div. Yield	4.72	4.73	4.62	4.56	4.63	4.61				
●Earning Yld %(full)	6.87	6.89	6.73	6.65	6.75	7.36				
●P/E Ratio(Net)(☆)	18.43	18.37	18.83	19.05	18.77	16.89				
SEAQ Bargns 5.00pm	21,842	21,996	29,229	27,447	28,898	29,897				
Equity Turnover(£m)†	-	1151.1	1319.2	1417.8	1388.2	1201.86				
Equity Bargains†	-	26,364	32,791	30,976	32,879	28,963				
Shares Traded (ml)†	-	437.7	589.7	623.6	649.5	534.8				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90 ☆ Nil 17.69.

Ordinary Share Index, Hourly changes — Day's High 1878.5 — Day's Low 1850.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1872.9	1862.2	1852.8	1855.5	1850.8	1857.7	1858.8	1861.8	1875.3

FT-SE 100, Hourly changes — Day's High 2568.6 — Day's Low 2531.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2557.7	2547.6	2532.8	2537.1	2531.6	2540.9	2542.4	2548.9	2563.9

FT-SE Eurotrack 200, Hourly changes — Day's High 1084.25 — Day's Low 1068.56

Open	11.30 am	12 pm	1 pm	2 pm	3 pm	4 pm
1075.83	1072.27	1070.45	1072.59	1073.80	1077.85	1084.25

GILT EDGED ACTIVITY

Indices*	Sept 28	Sept 25
Gilt Edged Bargains	119.2	142.4
5 – Day average	192.1	206.2

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p/minute at all other times.

Strong gain in Sears

A DIVIDEND cut, deepening losses and huge restructuring costs at Sears had the seemingly contradictory result of sending the stores group's shares sharply forward in brisk turnover. Sears cut its interim dividend from 1.525p to 1p after reporting a pre-tax interim loss of £8.8m. It took a provision of £32.2m for rationalisation of its shoe subsidiary and an £84m extraordinary charge following its withdrawal, announced last week, from menswear retailing.

However, with the bad news well signposted, the results were already in the share price, while the dividend cut at least removed uncertainty surrounding the dividend policy.

Analysts also reported a positive post-results meeting. "Sears has bitten the bullet and the market can now look at the potential for recovery of the company," said Ms Kimlan Cooke at County NatWest, who yesterday moved from a sell to a hold on the stock. "But the shares do not look cheap and Sears has some way to go before it is out of the woods."

Mr Nick Hawkins at Kleinwort, brokers to the company, was more bullish. "While the dividend cut was not as large as some had wanted, the issue is now resolved. Investors can now focus on the underlying business and the prospects for growth." Sears shares climbed 8 to 80p, with turnover of 24m making it the heaviest traded stock of the day.

Banks sold

Bearish noises from County NatWest put substantial pressure on a banks sector that has recently outperformed the wider market.

"The sector was at a 10-year relative high and included too much in the way of recovery hopes built into it," said Mr John Aitken, banks analyst at County.

He targeted the whole sector as ripe for profit-taking but picked out current earnings forecasts for Lloyds and TSB as especially liable to revision. Mr Aitken warned that Lloyds exposure to the Maxwell empire could be greater than previously thought.

On TSB he said his current year profits estimate could be as much as 30 per cent too high, implying a potential downgrade from £220m to £150m. He cited Hill Samuel's property lending book as a cause for concern as well as TSB's ordinary banking bad debts. Mr Aitken's caution on Barclays largely reflected doubts about an upturn in the property market.

County's bearish views on Lloyds triggered a 21 slide in the shares which closed at 431p after turnover of 2.6m. Barclays lost 11 to 351p on 4.2m traded. TSB were barely changed at 133p.

Fisons, the troubled chemicals, group was one of the Footsie stocks spoken of as a potential takeover target, the shares edging up 3 to 187p, on good turnover of 4.4m shares.

After several uncomfortable sessions, chiefly at the hands of US investors, pharmaceutical stocks rebounded as some UK brokers decided the retreat had been overdone.

Glaxo jumped 18 to 764p, **SmithKline** 19 to 493p and **Wellcome** 11 to 920p. More downgrades of ICI yesterday, following on from Monday, continued to undermine the shares. They closed 16 off at 1129p.

Enterprise Oil shares, heavily supported by US investors over the past couple of weeks ahead of news of Monday's ADR listing in New York, maintained their strong performance to close a further 14 higher at 426p on relatively high turnover of 1.9m. Lasmo also performed well, edging up 2 to 162p on 2.8m.

Burmah Castrol, on the other hand, were upset by news that Strauss Turnbull had removed the stock from its buy list, rating it no more than a "hold". Strauss said it would not discourage profit taking at the current level.

BP mirrored the overall market mood, slipping 4 to 213½p on 8.3m traded, and was also affected by suggestions that investors were switching out of the stock and into Shell, which hardened to 539p on good turnover of 5.4m.

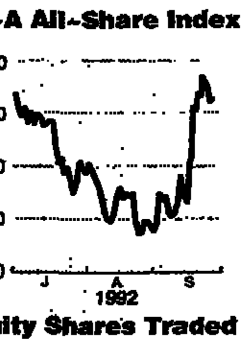
Utilities made good progress at the outset but relinquished much of their early gains as the session wore on. British Gas settled 2 better at 245p on 8.7m. In the electricity distribution stocks **Midland** held on to a gain of 7 at 405p, while the water stocks showed **Thames** 9 firmer at 451p.

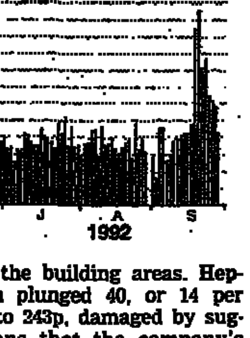
The power generators staged a useful revival, still boosted by hopes that a favourable new five-year deal with British Coal will be revealed in the near future. **PowerGen** closed 8½ up at 286p and **National Power** rose 6 to 275p.

Supermarket group **Kwik Save** surrendered 12 to 672p after Cazenove was reported to have crossed 1.5m shares at 660p. **Northern Foods** was the subject of "take profits" advice from BZW, among others. The shares lost 4 to 167p.

Airtours moved ahead 8 to 237p as Hoare Govett recommended the tour group, arguing that the shares have the potential to go to 280p. **Rival Owners Abroad** added 4 to 60p.

In the other industrial materials sector, **English China Clays** lost 19 to 425p, after BZW advised investors to take profits.The four worst performers in the London market all came from the building areas. Hepworth plunged 40, or 14 per cent to 243p, damaged by suggestions that the company's own broker, James Capel, had chopped its current year profits estimate to around £44m. **Meyer International** fell 21, or 9.5 per cent, to 200p, **Heywood Williams** 15, or 8 per cent, to 164p, and **Tarmac** 5½, or 6.8 per cent, to 75p.





Redland, due to announce interims tomorrow, recovered strongly after a bout of heavy selling early in the session, and closed only 3 off at 358p, having been as low of 346p.

Shares in British Steel shed 3 to 58p, after Smith New Court lowered its current year profits forecast from a profit of *£25m to a loss of £50m.*

The broker said it expects the company to make no profits the following year. Mr Ian Lowe at Smith said: "We do not accept that British Steel has derived any mid-term advantage from the recent devaluation and indeed in the longer term it maybe a disadvantage." Turnover reached 7.7m.

Strong two way business in British Aerospace of 5m left the shares 2 better at 118p. The company yesterday held a meeting with analysts in an attempt to steady nerves after last week's disappointing results. Mr Clive Forestier-Walker at Charter House Tilney said: "It was a reassuring meeting but it still leaves prospects about the future uncertain."

TI Group ended 11 lighter at 290p on the weaker US dollar and nervousness about the levels of provisions at its Dowty Group subsidiary, due to be announced tomorrow.

MARKET REPORTERS:
Joel Kibazo,
Steve Thompson,
Christopher Price.

■ Other market statistics, Page 21

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

THE IMPROVED performance of sterling together with suggestions of a cut in German interest rates led to a late squeeze in stock index futures and enlivened an otherwise poor trading session, writes Joel Kibazo.

The December contract on the FT-SE opened for business at 2,609, a 54 point premium to the cash market, and quickly went into retreat on the back of reasonable selling and fading hopes for a cut in UK interest rates. It had fallen to 2,572 by midday.

A period of sideways trading followed before the improved performance of sterling and rumours of a cut in German interest rates caught the early sellers on the hop. This led to a squeeze which sent the contract sharply forward. December finished the session at 2,626, a 5 point improvement on Monday's closing level and around 22 points above its estimated fair value premium to cash of about 40. Turnover was healthy and it reached 11,340 by the close.

Business in the traded options was much improved and turnover rose to 31,894 contracts, up from Monday's poor 20,382 lots. The FT-SE 100 option more than doubled to 15,563 lots. Barclays was the busiest stock option with a day's total of 1,319 contracts.

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section	Tue Sep 29 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Mon Sep 28 Index No.	Fri Sep 25 Index No.	Thu Sep 24 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (175)	755.54	-1.5	7.68	5.80	16.83	26.19	766.73	776.84	779.69	862.23
2	Building Materials (23)	713.57	-3.3	7.38	7.70	18.80	30.02	737.62	757.21	769.83	1055.19
3	Contracting, Construction (27)	610.70	-1.3	3.19	8.27	346.44	29.27	618.44	629.03	627.09	1170.42
4	Electricals (9)	2103.84	-0.6	7.99	7.15	16.55	85.80	2117.45	2171.82	2192.08	2675.48
5	Electronics (27)	2043.08	-0.7	7.95	4.22	15.69	47.93	2058.46	2054.38	2034.81	1819.17
6	Engineering-Aerospace (6)	274.80	+0.4	13.12	8.49	9.67	13.53	273.62	280.36	280.81	376.90
7	Engineering-General (43)	461.89	-1.0	8.76	5.08	14.56	14.37	466.66	472.14	471.47	502.17
8	Metals and Metal Forming (7)	305.50	-1.9	5.69	7.16	25.56	7.52	311.48	315.68	316.07	467.63
9	Motors (14)	304.28	-1.5	8.71	7.76	15.11	14.69	308.82	313.75	314.78	352.80
10	Other Industrial Materials (19)	1751.95	-1.5	7.16	4.76	16.88	57.80	1778.28	1799.64	1813.03	1663.15
21	CONSUMER GROUP (191)	1595.99	+1.0	7.23	3.63	17.13	32.79	1580.01	1611.20	1628.71	1568.17
22	Brewers and Distillers (25)	1977.33	+0.3	8.43	3.72	14.30	41.39	1971.03	2031.77	2080.53	1956.39
25	Food Manufacturing (19)	1201.52	+0.5	8.92	4.40	13.86	28.04	1195.35	1202.57	1203.74	1250.55
26	Food Retailing (18)	2721.20	+1.7	9.11	3.40	14.25	48.07	2675.44	2693.39	2684.09	2549.33
27	Health and Household (25)	4054.80	+2.2	5.46	2.73	21.23	68.85	3968.89	4079.76	4134.10	3736.26
29	Hotels and Leisure (18)	1067.87	+1.3	7.54	6.39	17.32	38.53	1053.66	1083.62	1094.64	1343.59
30	Media (26)	1624.16	....	6.08	3.24	20.51	32.89	1623.88	1642.36	1640.78	1555.09
31	Packaging, Paper & Printing (17)	734.68	....	6.91	4.41	18.02	22.00	734.38	735.55	737.26	782.30
34	Stores (34)	1035.06	+0.6	6.86	3.63	19.43	18.84	1028.73	1046.48	1064.37	1004.27
35	Textiles (9)	670.12	-1.0	7.08	4.57	17.77	16.42	676.70	686.08	685.90	632.85
40	OTHER GROUPS (117)	1286.40	-0.2	9.72	5.28	12.88	39.94	1288.59	1298.26	1305.19	1323.80
41	Business Services (17)	1353.56	-0.6	6.62	3.89	18.52	23.67	1361.14	1373.50	1366.14	1430.32
42	Chemicals (22)	1377.89	-0.7	7.12	5.27	17.44	48.13	1387.08	1437.62	1451.62	1494.14
43	Conglomerates (10)	1273.57	+0.4	9.05	8.64	14.14	38.55	1268.44	1284.68	1311.42	1553.68
44	Transport (14)	2493.60	-0.7	8.06	4.74	15.26	74.86	2511.42	2531.01	2500.07	2423.57
45	Electricity (16)	1402.04	+1.3	14.84	5.23	8.69	55.01	1384.22	1375.29	1362.49	1273.92
46	Telephone Networks(4)	1439.71	....	10.50	4.59	12.42	46.15	1440.18	1447.85	1476.94	1628.21
47	Water(11)	2925.98	+0.7	15.31	5.91	7.23	86.85	2906.00	2864.00	2835.34	2504.01
48	Miscellaneous (23)	2184.14	-1.6	6.07	4.62	20.67	55.15	2219.34	2228.58	2233.69	1943.19
49	INDUSTRIAL GROUP (483)	1286.76	+0.2	8.12	4.54	15.41	33.98	1284.29	1303.01	1313.18	1318.57
51	Oil & Gas (17)	2025.47	-0.2	6.66	6.41	19.67	84.69	2029.78	2045.29	2045.13	2449.83
59	500 SHARE INDEX (500)	1356.04	+0.2	7.97	4.74	15.76	37.99	1354.00	1372.76	1382.37	1416.16
61	FINANCIAL GROUP (83)●	754.02	-0.7	-	5.86	-	29.00	759.57	774.07	769.00	836.28
62	Banks (9)●	1018.30	-1.6	5.11	5.46	29.36	39.95	1034.58	1056.33	1056.15	985.76
65	Insurance (Life) (6)	1577.75	+1.3	-	5.76	-	66.22	1557.92	1581.84	1572.37	1580.89
66	Insurance (Composite) (7)	539.68	+0.7	-	5.57	-	16.37	536.00	547.98	534.84	629.81
67	Insurance (Brokers) (10)	701.05	-2.1	10.19	8.02	12.88	39.90	716.43	727.26	683.82	1159.35
68	Merchant Banks (7)	463.76	-0.6	-	4.79	-	13.08	466.66	475.00	474.02	483.38
69	Property (30)	547.96	-0.3	10.31	8.13	12.87	22.28	549.46	556.90	554.82	969.40
70	Other Financial (14)	242.19	-0.1	8.25	6.89	15.91	7.81	242.44	244.57	243.74	261.04
71	Investment Trusts (70)	1146.21	-1.3	-	3.92	-	26.39	1160.93	1169.68	1169.58	1260.62
99	ALL-SHARE INDEX (653)●	1210.90	....	-	4.86	-	35.34	1210.82	1228.23	1234.41	1275.62

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Sep 28	Sep 25	Sep 24	Sep 23	Sep 22	Year ago
FT-SE 100 SHARE INDEX♦	2565.5	+5.5	2568.6	2531.5	2560.0	2601.0	2621.2	2580.5	2586.0	2645.6

FIXED INTEREST

	PRICE INDICES	Tue Sep 29	Day's change %	Mon Sep 28	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (22)	124.94	-0.09	125.06	2.13	9.31
2	5-15 years (25)	139.38	-0.03	139.42	1.77	10.59
3	Over 15 years (8)	144.72	-0.09	144.85	1.37	9.97
4	Irredeemables (6)	163.28	+0.02	163.24	3.36	8.83
5	All stocks (61)	136.68	-0.06	136.76	1.89	10.25
	Index-Linked					
6	Up to 5 years (2)	175.97	-0.10	176.15	0.43	3.25
7	Over 5 years (10)	156.70	-0.28	157.14	0.80	3.64
8	All stocks (12)	158.16	-0.25	158.56	0.75	3.56
9	Debs & Loans (62)	117.77	+0.06	117.96	1.87	9.40

	AVERAGE GROSS REDEMPTION YIELDS		Tue Sep 29	Mon Sep 28	Year ago (approx.)
	British Government				
1	Low	5 years	7.95	7.90	8.51
2	Coupons	15 years	8.75	8.74	9.30
3	(0%-7¾%)	20 years	8.98	8.97	9.30
4	Medium	5 years	8.54	8.51	9.59
5	Coupons	15 years	9.19	9.19	9.43
6	(8%-10¾%)	20 years	9.33	9.33	9.39
7	High	5 years	8.83	8.79	9.80
8	Coupons	15 years	9.42	9.41	9.51
9	(11%-)	20 years	9.48	9.48	9.43
10	Irredeemables		9.44	9.44	9.52
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.57	3.53	3.78
12	Inflation rate 5%	Over 5 yrs.	4.17	4.15	4.22
13	Inflation rate 10%	Up to 5 yrs.	2.80	2.76	3.17
14	Inflation rate 10%	Over 5 yrs.	3.99	3.96	4.04
15	Debs &	5 years	9.93	9.99	11.27
16	Loans	15 years	10.49	10.50	11.04
17		25 years	10.53	10.53	10.82

♦Opening index 2557.7; 9 am 2547.6; 10 am 2532.8; 11 am 2537.1; Noon 2531.6; 1 pm 2540.9; 2 pm 2542.4; 2.30 pm 2542.1; 3 pm 2546.9; 4.10 pm 2564.8; (a) 4.20 pm (b) 11.56 am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 3rd Floor, Number One, Southwark Bridge, London SE1 9HL. ●The HSBC dividend is not subject to Advance Corporation Tax at 25%.

NEW HIGHS AND LOWS FOR 1992

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs	h	16⅛xd	-⅛	19⅛	14⅝	13,861	2.2
♥Allegheny & W.		339p	-9	387p	226p	176.2	5.2
Amdahl		509p	-16	1159p	509p	571.6	1.1
Amer Cyanamid		31	-1⅝	37	28⅝	2,797	3.1
Amer Express		12½xd	-⅜	13⅞	10⅞	5,559	4.7
Amer T & T		25⅛xd	-¼	25⅞	20⅛	33,413	3.1
Ameritech		38¼	-1¼	40	32½	10,966	5.3
BankAmerica		24⅞xd	-⅞	27⅛	19⅞	8,333	3.2
Bankers NY		36⅞xd	-⅞	37⅞	28⅞	2,984	4.4
Bell Atlantic		27¼	-¾	28¼	23⅛	11,764	5.6
BellSouth		29½	-⅞	32⅞	25	14,422	5.5
♥Bethlehem Steel		6⅞xd	-⅞	9⅝	5⅛	621.9	-
Bowater		1118pxd	-51	1579p	905p	403.4	6.3
CPC	h	27½xd	-¼	28⅞	22⅓	4,165	2.5
♥Cadiz Land Inc		128p		342p	128p	-	-
Chase Manhattan		12⅞xd	-⅛	16⅛	9⅛	1,837	5.4
Chrysler		12⅞xd	+¼	13⅞	6⅛	3,728	2.7
Citicorp		8⅞xd	-⅛	11¼	5⅛	3,135	-
Colgate-Palm		32⅛xd	-	33½	25¼	5,284	2.2
Cont'l Bank		911p	-30	1030p	499p	920.6	3.8
Dana		22⅞xd	-	24½	14⅞	1,028	4.2
Data General		615p	-27	1004p	384p	168.7	-
♥Decard Inds.		116p		122p	96p	-	-
Dun & Brad		32¼	-1	33½	27⅝	5,731	4.1
Eaton		43½	-1½	46½	32½	1,582	3.0
Echlin		11½xd		11¼	7⅛	661.4	3.6
FPL		20⅞xd	-⅛	21¼	17⅞	3,770	6.8
Fluor		24⅞xd	-⅞	27	19¼	2,022	0.9
Ford Motor		22⅛xd	-½	26⅛	15	10,756	2.6
Gen Elect		45⅛xd		48⅛	36⅛	38,784	3.0
♥General Host		530p	-13	584p	360p	-	3.9
Gillette		33⅝xd	+½	34⅞	23⅞	7,376	1.3
Hasbro		18¼	-⅛	18⅝	13⅛	1,626	0.6
Honeywell		37⅞	+⅛	43	32	2,844	2.5

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MEDIA - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Tap Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
● Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below
♧ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially UK listed; dealings permitted under Rule 535(2)
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
d Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Not subject to ACT
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1990-91
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring +44 81-643 7181, quoting the code FT3076. Reports will be sent the next working day, subject to availability. Please quote the current code above, which is changed weekly. Only one report per company.

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Real time share prices and other stock market information is available through the FT Cityline international telephone service.
Annual subscription £250.00 stg.
Call +44 71-925 2128 for more details

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

AUTHORISED UNIT TRUSTS

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Unit Trust Managers Limited (1000)F						
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783						
AIB Grofund American	5	126.0	127.2	133.9	-1.70	0.02
AIB Grofund Equity	5	177.8	180.0	190.9	-1.80	2.41
AIB Grofund Euro	5	134.7	137.5xd	144.8	-2.30	0.47
AIB Grofund Gilt	3	71.18	71.20xd	73.40	+0.04	5.93
AIB Grofund Japan	5	114.2	115.5	121.6	-3.30	0.00
AXA Equity & Law Unit Tst Mngrs (1200)H						
Equity & Law Hse, Corporation St, Coventry 0203 553231						
General Inc	5	350.3	352.5xd	375.1	-7.7	3.47
General Acc	5	381.4	383.9xd	408.5	-8.3	3.47
UK Growth Acc	6	259.1	263.5	280.4	-5.4	3.87
UK Growth Inc	6	188.9	192.1	204.4	-3.9	3.87
Higher Inc Acc	6	437.0	445.2	473.7	-8.9	5.46
Higher Inc Inc	6	275.7	280.9	298.9	-5.5	5.46
Gilts/Fxd Int Acc	5½	158.5	159.2xd	167.6	-0.1	8.14
Gilts/Fxd Int Inc	5½	85.37	85.75xd	90.27	-0.05	8.14
Nth America	6	188.4	192.8	205.2	-4.6	0.00
Far East	6	204.1	206.1	219.3	-3.8	0.50
Europe	6	190.0	192.0xd	204.3	-0.5	0.89
Brit Excell	6	52.67	52.67	56.04	-1.06	4.14
Brit Fndmntls Acc	6	67.59	67.59xd	71.91	-1.30	6.43
Brit Fndmntls Inc	6	53.06	53.06xd	56.45	-1.01	6.43
Global Opps	6	51.65	52.40	55.75	-0.67	0.43
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
Gilts & Fixed Int	6	121.3	121.3xd	128.8	+0.3	8.04
High Inc Equity	6	119.0	121.9	129.6	-2.0	6.96
Worldwide Bond	6	238.6	238.6xd	253.2	-2.4	5.62
Capital Growth						
American Growth	6	208.6	208.6	222.8	-2.3	1.01

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Britannia Life Unit Managers Ltd (1200)F						
190 West George St, Glasgow G2 2PA 041-332 3132						
Balanced Growth	6	77.51	78.58	84.04	-1.19	2.40
Do (Accum)	6	83.64	84.80	90.69	-1.29	2.40
Smaller Cos	6	58.58	58.58	62.65	-0.75	2.32
Do (Accum)	6	62.56	62.56	66.91	-0.81	2.32
Higher Yield	6	30.62	30.62	32.74	-0.96	5.20
Do (Accum)	6	40.91	40.91	43.75	-1.28	5.20
American Gth Inc	6	38.37	38.37xd	41.04	-0.68	0.33
Do (Accum)	6	39.10	39.10	41.82	-0.62	0.33
European Growth	6	84.11	84.11xd	89.96	-0.46	2.04
Do (Accum)	6	84.89	84.89	90.80	-0.46	2.04
Global Bond Inc	6	26.05	26.09	27.70	-0.41	5.87
Do (Accum)	6	31.22	31.26	33.19	-0.50	5.87
Managed P'folio Inc	6	26.14	26.23xd	28.06	-0.48	0.00
(Do Accum)	6	26.21	26.31	28.13	-0.40	0.00
Fin. Fs Growth Accum	6	68.36	68.36	73.12	-1.54	1.11
Intl Spec Opps Accum	6	59.26	59.26	63.38	-0.82	0.77
Brown Shipley & Co Ltd (1000)F						
9-17 Perrymount Rd Haywards Hth 0444 412261						
Mngd P'folio Inc	6	69.83	69.83	74.37	-0.88	2.80
Mngd P'folio Acc	6	130.7	130.7	139.2	-1.70	-
UK General	6	117.6	117.6	125.2	-1.00	4.07
Comr & General	6	14.43	14.43xd	15.37	-0.13	10.6
European Inc	6	19.59	19.59xd	21.10	-0.39	0.53
European Acc	6	20.12	20.12	21.67	-0.41	-
Financial	6	84.55	84.97xd	90.75	-1.67	4.90
Founders	6	56.82	58.80xd	62.62	-0.34	4.48
German	6	35.51	35.51	38.06	-0.73	0.12
Growth Inc (15-1)	5	24.42	24.42	26.02	-0.38	3.96
Growth Acc (15-1)	5	28.19	28.19	30.04	-0.40	-
High Income	6	55.40	55.85xd	60.21	-0.72	7.81
Income	6	98.50	100.6	107.6	-0.80	5.39
Intl Income	6	76.65	76.65	81.63	-1.05	5.91
Intl Growth	6	25.35	25.35	27.00	-0.43	0.29
Monthly Income	6	53.17	55.00	58.58	-0.47	5.73
North American	6	76.61	76.61	81.59	-1.47	0.27
Orient	6	78.59	78.59	84.53	-2.22	-
Recovery	6	24.93	25.05	27.06	-0.31	4.36
Smaller Cos Acc	6	185.4	185.4	197.5		-
Smaller Cos Inc	6	110.2	110.2	117.4		1.96
Brycourt Unit Tst Mgmt Ltd (1400)F						
Nesbeth Hse, Portman Sq, W1H 0JR 071-935 6380						
Income Growth	1	176.0	176.0	181.1	-2.0	6.41

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
MGM Unit Managers Ltd (1000)F						
MGM House, Heene Rd, Worthing						
Dealing 0277 261010 Enq 0903 204631						
High Income	5	220.6	223.8	238.0	-3.5	6.81
(Accum Units)	5	366.0	371.3	394.9	-5.8	6.81
UK Growth	5	280.3	283.0	301.0	-3.6	3.81
(Accum Units)	5	343.4	346.6	368.7	-4.4	3.81
Int Equity Gth	5	48.32	48.41	51.49	-0.83	1.11
Intl Bond	5	59.60	59.60	62.99	+0.06	6.64
Special Sits Gwth	5	13.97	14.43xd	15.35	-0.23	4.05
North American Gwth	5	72.48	72.70xd	77.33	-0.87	0.96
European Growth	6	52.20	52.44	55.78	-0.71	1.88
NFU Mutual Unit Mngrs Ltd (1400)F						
Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 261010						
Avon Equity	4	89.91	91.43	97.27	-1.81	3.70
NM Unit Trust Mngrs (1200)F						
The Bilton Centre, North Harbour, Portsmouth						
Enquiries 0705 372222 Dealing 0705 387730						
American	5¼	33.51	33.51	35.74	-0.49	0.90
(Accum Units)	5¼	36.39	36.39	38.81	-0.53	0.90
Australian	5¼	198.00	198.00	212.40	-4.50	0.00
(Accum Units)	5¼	223.90	223.90	240.20	-5.10	0.00
Conscience	5¼	50.60	51.50	54.96	-0.58	1.51
(Accum Units)	5¼	53.95	54.91	58.60	-0.62	1.51
European	5¼	148.50	148.50	158.40	-0.80	1.00
(Accum Units)	5¼	158.50	158.50	169.00	-0.90	1.00
Extra Income	5¼	62.63	62.63xd	66.84	-0.48	6.80
(Accum Units)	5¼	92.36	92.26	98.46	-0.70	6.80
Far East Gth Acc	5¼	107.70	107.70	115.10	-2.40	0.00
Gilt & F.I.	5¼	54.04	54.04xd	57.20	-0.09	8.06
(Accum Units)	5¼	124.00	124.00	131.20	-0.20	8.06
Gold	5¼	26.82	26.82	28.83	-0.78	0.00
(Accum Units)	5¼	28.88	28.88	31.05	-0.84	0.00
Income	5¼	42.95	42.95	45.81	-0.65	6.22
(Accum Units)	5¼	125.70	125.70	134.00	-2.00	6.22
Intnl.	5¼	23.16	23.16	24.84	-0.40	1.05
(Accum Units)	5¼	33.10	33.10	35.51	-0.58	1.05
Jap Smaller Cos	5¼	205.40	205.40	219.00	-4.30	0.00

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

Sharp (Albert E.) & Co (1000)F
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex
Enquiries 0277 227300 Dealing 0277 261010

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Intl Bond & Conv	5	112.68	112.98	118.80	-	6.19
Pooled Pension	3¼	131.1	135.7	140.4		-
Smaller Cos	5	50.88	52.66	55.43	-0.20	2.94
UK General	5	102.78	104.40	109.90	-0.80	2.83

Sheppards Unit Trust Mngmt Ltd (1200)F
1 White Hart Yard, London Bridge SE1 071-407 5966

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income	5	325.30	325.30	344.82	(z)	6.00
Global Inc	5	47.82	47.82	50.69	(z)	4.82
Brit Leaders	5	283.56	283.56	300.57	(z)	3.39
Intl Leaders	5	148.59	148.59	157.50	(z)	2.08
SS Balanced Cash Accg	3¼	45.84	46.50	48.31		4.43
SS Balanced Cash Inc	3¼	45.84	46.50	48.31		4.43

Singer & Friedlander UT Mgmt Ltd (1000)F
PO Box 224, Beckenham, BR3 4TF 081-663 3003

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
European Trust	6	44.53	44.53	47.37	-0.97	2.38
Smaller Cos	5	107.9	112.1	119.2	-0.6	2.95

Smith & Williamson Unit Tst Mgrs (1600)F
1 Riding House St, London W1A 3AS 071-637 5377

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
S & W American	5	220.9	221.2	234.0	-4.3	1.01
S & W Capital	5	98.23	98.23	105.4	+1.3	1.99
S & W Cash	0	100.26	100.26	100.26	+0.06	9.81
S & W European	5	99.12	99.52	105.3	-0.3	1.53
S & W Far Eastern	5	95.94	96.60	102.2	-1.3	0.14
S & W Growth	5	106.7	108.0	114.2	-1.6	1.71
S & W Income	5	92.03	93.45	98.88	-0.74	5.97
S & W Magnum	5	104.1	104.1	111.8	+1.4	1.92
S & W Smllr Srcs	5	231.8	237.9	251.7	-3.4	1.18
S & W Throgmorton	5	120.6	120.6	129.4	+1.0	1.88

Societe Generale Touche Remnant (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250
4 Hourly Pricing – 12 Noon Historic

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Gwth	5¼	56.42	56.42	60.34	-1.29	0
Eur Sp Sits Acc	5¼	38.41	38.41	40.88	-0.82	0
Eur Sp Sits Inc	5¼	36.80	36.80	39.18	-0.58	0
Far East Opps Inc	5¼	21.64	21.64	23.35	-0.47	0
Far East Opps Acc	5¼	22.18	22.18	23.93	-0.48	0
General Growth	5¼	83.13	83.13	89.36	-0.32	3.65
General Growth Acc	5¼	84.52	84.52	90.85	-0.35	3.65
Global Tech	5¼	82.41	82.41	89.05	-1.79	0
Income Growth	5¼	81.52	81.52	87.72	-0.56	5.33
Income Growth Acc	5¼	81.52	81.52	87.72	-0.56	5.33
Income Monthly	5¼	45.21	45.21	48.35	-0.31	7.16
Japan Growth	5¼	55.10	55.10	58.55	-2.01	0
Overseas Growth	5¼	57.41	57.41	61.39	-1.49	0

Whittingdale Unit Tst Mgmt Ltd (0830)F
2 Honey Lane, London EC2V 8BT 071-600 0462

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Challenger	2¼	78.13	78.13	79.95	-0.56	0.00
Short Dtd Gilt	1¼	101.3	101.3	102.7	+0.1	1.93
U S Govmnt Bond	1¼	0.7053	0.7053	0.7144	-0.002	0.00
Gilt Income	4	48.86	48.86	50.84	+0.17	9.30
Gilt Growth	4	59.94	59.94	62.38	+0.18	0.00
City Reserve	0	54.62	54.62	54.62	+0.01	9.80

Woolwich Unit Trust Managers Ltd (1700)H
1 White Oak Square, Swanley BR8 7AG 0705 388046

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stockmarket Fd F	5	56.24	56.38	59.97	-0.19	2.77

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Int'l Expl Sep 16	530.6	547.5	.....	1.27

James Capel Fund Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Exempt	111.438	117.863	-1.054	4.70

Cent. Bd. of Fin. of Church of England‡‡
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	+ or -	Yield Gross
Inv Fund Aug 31	477.00	479.10	—	6.18
Fxd Int Sec Aug 31	140.60	141.25	—	10.27

Deposit Fund: See Money Market Trust Funds.

Charinco/Charishare‡‡ (1000)F
33 King William Street, EC4R 9AS 071-280 2800

	Bid Price	Offer Price	+ or -	Yield Gross
Charinco Inc	165.6	167.5	+0.10	9.79
Charinco Acc	947.9	958.9	+0.30	9.79
Charishare Inc	163.3	167.2	-2.20	4.72
Charishare Acc	207.1	212.1	-2.80	4.72

CAFINVEST–Charities Aid Foundation
48 Pembury Rd, Tonbridge TN9 2JD 0732 771333

	Bid Price	Offer Price	+ or -	Yield Gross
Balanced Growth	57.92	59.86	-	4.18
Income	55.96	57.03	-	7.72

COIF–Charities Official Inv Fd‡‡
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	+ or -	Yield Gross
Income Aug 31	469.45	470.13	-	6.32
Accum Aug 31	1784.46	1797.29	-	-
Fixed Int Income Aug 31	114.45	114.68	-	10.12

INSURANCES

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925.2128.

Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4UB 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Gwth Mngd	576.4	613.2	-2.1	-
Adventurous Mngd	133.4	142.0	-1.9	-
Cautious Mngd	111.6	118.8	-0.6	-
Cash Fd	310.6	327.3	....	-
Property Fund	216.6	230.5	+0.8	-
Equity Fund	639.7	680.6	-8.7	-
Fxd Int. Fund	367.4	387.2	+0.2	-
International	288.7	307.2	-4.1	-
High Income	510.8	543.5	-1.2	-
Far East	376.4	400.5	-6.5	-
North American	336.2	357.7	-3.0	-
Special Sits.	471.6	501.8	-4.9	-
Technology	331.1	352.3	-4.3	-
Extra Inc Fd	273.9	291.4	-4.2	-
Convertible & Gilt Fd	132.0	140.5	-0.7	-
American Income	147.9	157.4	-2.4	-
Gilt Fund 20	417.2	443.9	+1.4	-
European Fund	107.3	114.2	-1.4	-
Pref & Fixed Int	99.8	106.2	..	-
UK Blue Chip	102.4	108.0	-1.8	-
Recovery Fund	95.6	100.8	-1.6	-
Equity Income Dist.	91.9	97.8	-1.1	4.99
Managed Dist	88.5	94.2	-0.8	5.31
High Yield Dist	95.0	100.2	-	8.35
Pension Funds				
Balncd Gth Mgd Pens Acc	649.9	684.2	-7.4	-
Adventurous Mgd Pens Acc	134.6	141.7	-1.9	-
Cautious Mngd Pens Acc	127.1	133.8	-0.7	-
Building Soc. Acc	356.3	375.1	-	-
Property Pens Acc	293.9	309.4	+1.0	-
Fxd. Int. Pens Acc.	573.8	604.0	-	-
Equity Pens. Acc	795.8	837.7	-11.9	-
International Pens Acc	261.5	275.3	-3.6	-
High Inc Pens Acc	562.3	591.9	-5.4	-
Tech Pens Acc	224.2	236.1	-3.9	-
N American Pens Acc	245.9	258.9	-2.7	-
Far Eastern Pens Acc.	369.6	389.1	-5.8	-
Special Sits Pens Acc.	385.7	406.0	-3.5	-
Extra Income Pens Fd	333.8	351.4	-4.7	-
Convertible & Gilt Pen	161.5	170.1	-2.5	-
American Inc Pens	165.0	173.7	-0.8	-
European Pens.	118.5	124.8	-1.5	-
Managed Gwth Pens	167.7	176.6	....	-
Pref & Fixed Pens	115.3	121.4	-	-
UK Blue Chip	106.6	112.3	-2.2	-
Recovery Fund	100.2	105.5	-1.7	-
Bristol Wth Profits Pens	104.8	110.4	...	-
Other Funds				
Margett Growth	108.9	114.7	+0.5	-
Margett Income	111.9	117.8	+0.2	-
Margett Pension	117.5	123.7	+0.6	-
DWC Growth & Income	116.0	122.2	ш	-
NCH Managed	108.5	114.3	-1.0	-
B&B Select Mngd	94.8	99.8	-0.5	-
JNJ Managed Pension	111.0	116.9	-1.7	-
IAS Managed	114.6	120.7	+0.2	-
Income Retirement Pfolio	97.8	103.0	-0.6	-
FIC Prosperity	147.1	154.9	-1.3	-
Cap Retirement Pfolio	111.7	117.6	-1.2	-
Pembroke Intl	92.6	97.5	-0.4	-
North Retirement Portfolio	88.8	93.5	-0.4	-
IAS Pension Managed	136.8	144.0	+0.2	-
Capital Income & Growth	101.0	106.4	-0.6	-

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Bid Price	Offer Price	+ or -	Yield Gross
Gartmore Fund Managers (IoM)				
Intl Inc.°	15.5	16.5	-0.1	12.0
* Projected Yield				
John Govett Management (IoM) Ltd				
Dir Govett Cur NAV Sep 18	$17.844			-
Paragon Plus Red Sep 1	£8.69			-
Paragon Sub Red Sep 1	£10.06			-
SE Asian Wnt NAV Sep 24	$9.90			-
Govett Mad Fut Sep 25	£14.15	15.47		-
Govett Mngd Futs Sep 25	$10.14	11.09		-
Man Mariana Inv Sep 24	$12.38			-
Man Mariana Inv Wnt Sep 24	$5.33			-
Dir Govett Bd Sep 18	$8.55			-
IBI Global Funds Limited				
Intl Stg Gwth	£18.57	19.46		-
Intl US$ Gwth	$17.99	18.95		-
High Income Gilt	£24.60	25.90		-
International Equity	£18.52	19.51		-
International Bond	£20.97	21.74		-
Managed Currency	£26.22	26.49		-
Sterling Currency	£26.03	26.31		-
US$ Currency	$37.62	38.01		-
Irish £ Currency	I£14.85	15.01		-
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£8.15	8.80		-
B.F Offshore Inc Fd Ltd	£10.52	11.03		-
Nelson Ridley W/W $/$	£8.81	9.15		-
LFM Sterling Fd	£10.55	10.98		-

JERSEY (SIB RECOGNISED)

	Bid Price	Offer Price	+ or -	Yield Gross
INVESCO MIM International Limited				
All Funds deal daily except where indicated.				
Sterling Denominated Income Funds				
American Equity Inc	£1.528	1.639xd	-0.020	2.77
Japan Inc & Gwth	£1.303	1.399	-0.012	2.60
Sterling Denominated Growth Funds				
Capital Deposit	£37.35	37.36	+0.07	-
European Perform.	£0.4040	0.4344xd	-0.0076	-
Far East	£2.174	2.338	-0.040	-
Pioneer Markets	£3.097	3.330	-0.033	-
UK Growth	£1.113	1.197	-0.017	2.35
£ Mng Portfolio	£1.422	1.537	-0.027	-
US Dollar Denominated Growth Funds				
Gold & Prec Mtls	$0.679	0.730	-0.006	-
Japan Performance	$2.109	2.268	-0.034	-
Gtd NW 1994	$8.99			-
MIM London Agents				
Apollo Fd Sep 23*	SFr77.0	82.49	...	-
*Weekly Dealing †Fortnightly Dlng **Monthly Dlng				
Lloyds Bank Trust Co (CI) Mngrs				
Lloydstrust World Inv Port	£2.307	2.423xd	...	1.34
Dealing weekly on Thursday				
Management International (Jersey) Ltd				
Anchor Gilt Edge (z)	£9.63	9.68	-0.02	9.71
Minerals, Oils Res. Shrs. Fd. Inc.				
Mores Sep 24	$14.25	14.55xd	...	2.75
Nat. Westminster Jersey Fd. Mgrs. Ltd				
Sterling Income(z)	52.8	55.0	...	8.50
UK Equity Fd (z)	200.2	213.0xd	-0.03	3.00
*Intl Bond Fd	94.0	97.0	...	7.57
**Natural Resources Fd	109.7	118.0	...	0.42
*Sterling Mngd Asset Fd.	502.2	529.0	...	5.00
*Sub day every Thurs **Sub day monthly 5th and 20th				
NatWest TrustCor Currency Fund (z)				
Dollar Class		$37.9388	+0.0027	-

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar loses ground to DM

THE DOLLAR lost nearly three pfennigs against the D-Mark yesterday as traders took an increasingly gloomy view of the US economy, *writes James Blitz.*

As tensions continue to unwind in the European exchange rate mechanism, the dollar is losing its status as a safe haven currency and dealers have more time to focus on the fundamental weakness in the US economy. This switch of attention looks set to continue throughout this week, with Friday earmarked as a decisive day for currencies in both Europe and the US in the medium term.

On Friday morning, the Bundesbank council will meet for the first time since the ERM crisis, with many dealers thinking that there will be another cut in short term rates. At lunchtime, the non-farm payroll figure for August will be released, giving dealers and the Federal Reserve the clearest indication yet of whether another cut in interest rates is needed.

The view that a US rate cut was in the offing gathered momentum yesterday. The US leading indicators fell 0.2 per cent in August, some way adrift from market forecasts of a 0.1 per cent rise. The conference board measure of consumer confidence for September dropped to 56.6, the weakest reading in seven months.

According to Mr Jeremy Hawkins, vice president at Bank of America in London, these figures suggest that the non-farm payroll figure will be poor. "The dollar could well revisit the old lows on the assumption that there is every chance of a cut in rates, compounded by uncertainty over the US election," he said. The dollar closed in London at DM1.4240, compared to a previous close of DM1.4510.

How low the dollar goes depends on what the Bundesbank does this Friday. When it cut its Lombard rate by 0.25 per cent on 14 September, the Bundesbank gave the strong impression that this was all it could afford for the time being.

That view was reinforced by the the growth in gross currency reserves by DM44.3bn in the week to September 23 as a result of intervention to support ERM currencies.

Fears that the German economy is weakening and that the ERM will not hold together may bring a rate cut. The Bundesbank is committed to avoiding a French franc devaluation, but yesterday the French currency lost some of the ground made on Monday, closing nearly a centime down against the D-Mark at FFr3.3810. That is nearly 5 centimes above the ERM floor against the D-Mark. But overnight rates in the French cash market remained at the 26 per cent to 28 per cent level yesterday, suggesting that the French money markets are taking a cautious view of the situation.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Sep 29	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Dutch Guilder	2.29193	2.22799	-2.79	2.45	48
Belgian Franc	41.9547	40.7955	-2.76	2.42	46
D-Mark	2.03412	1.98074	-2.62	2.27	52
French Franc	6.82216	6.70480	-1.72	1.33	-6
Danish Krone	7.75901	7.65627	-1.32	0.93	-23
Irish Punt	0.759300	0.754000	-0.70	0.29	-51
Portuguese Escudo	176.844	176.058	-0.44	0.03	-6
Spanish Peseta	139.176	138.605	-0.41	0.00	-7

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Sep 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7375 - 1.7765	1.7690 - 1.7700	0.91-0.89cpm	6.10	2.53-2.50pm	5.69
Canada	2.1780 - 2.2275	2.2235 - 2.2245	0.44-0.06cpm	1.35	1.61-0.69pm	2.07
Netherlands	2.8290 - 2.8470	2.8300 - 2.8400	par-1/4cdis	-0.26	1/4-1/2dis	-0.53
Belgium	51.70 - 52.10	51.95 - 52.05	1-5cdis	-0.69	3-10dis	-0.50
Denmark	9.6880 - 9.7840	9.7625 - 9.7725	4 1/2-7 1/4oredis	-7.29	7 3/4-13 1/4dis	-4.30
Ireland	0.9600 - 0.9650	0.9640 - 0.9650	1.55-0.95ppm	15.55	2.85-2.20pm	10.47
Germany	2.5095 - 2.5360	2.5175 - 2.5225	par-1/4pfdis	-0.30	1/2-1/4dis	-0.30
Portugal	221.80 - 226.70	224.20 - 225.20	6-11cdis	-0.45	N/A	N/A
Spain	175.70 - 179.50	175.90 - 176.20	111-140cdis	-8.55	333-390dis	-8.21
Italy	2117.40 - 2143.00	2135.75 - 2136.75	15-18liredis	-9.27	47-51dis	-9.17
Norway	10.1600 - 10.2490	10.2050 - 10.2150	13 1/4-20 1/4oredis	-19.61	20 1/4-27 1/2dis	-9.33
France	8.4520 - 8.5340	8.5150 - 8.5250	3 1/2-5 1/4cdis	-6.16	6 1/4-8 5/8dis	-3.61
Sweden	9.4180 - 9.5060	9.4625 - 9.4725	25-34oredis	-37.39	39 1/4-47 3/4dis	-18.51
Japan	208.20 - 212.25	211.25 - 212.25	1-3/4ypm	4.96	2 1/2-2 1/4pm	4.49
Austria	17.65 - 17.80	17.73 - 17.76	5/8-1/2gropm	0.38	1/4-1 1/4dis	-0.24
Switzerland	2.1940 - 2.2135	2.1975 - 2.2075	1/2-1/4cpm	2.04	1 1/4-3/4pm	1.82
Ecu	1.2775 - 1.2895	1.2805 - 1.2815	0.44-0.57cdis	-4.73	1.07-1.20dis	-3.54

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.58-4.53pm. 12 Month 8.20-8.10pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Sep 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7375 - 1.7765	1.7690 - 1.7700	0.91-0.89cpm	6.10	2.53-2.50pm	5.69
Ireland†	1.8140 - 1.8450	1.8405 - 1.8415	3.60-2.60cpm	20.21	7.40-6.40pm	14.99
Canada	1.2480 - 1.2620	1.2560 - 1.2570	0.19-0.22cdis	-1.96	0.65-0.75dis	-2.23
Netherlands	1.5995 - 1.6290	1.6010 - 1.6020	0.86-0.90cdis	-6.59	2.49-2.57dis	-6.32
Belgium	29.30 - 29.80	29.35 - 29.45	15.00-17.00cdis	-6.53	46.00-49.00dis	-6.46
Denmark	5.5040 - 5.5850	5.5175 - 5.5225	4.05-4.15oredis	-8.91	11.40-11.70dis	-8.37
Germany	1.4215 - 1.4490	1.4235 - 1.4245	0.75-0.77pfdis	-6.40	2.16-2.19dis	-6.11
Portugal	126.50 - 127.45	126.90 - 127.00	350-450cdis	-37.81	700-950dis	-25.99
Spain	99.30 - 102.10	99.60 - 99.70	80-82cdis	-9.75	245-250dis	-9.93
Italy	1199.85 - 1221.30	1207.00 - 1207.50	14.00-19.00liredis	-16.40	42.00-50.00dis	-15.24
Norway	5.7525 - 5.8670	5.7675 - 5.7725	7.00-8.50oredis	-16.12	16.50-18.00dis	-11.96
France	4.8005 - 4.8910	4.8125 - 4.8175	3.70-4.30cdis	-9.97	9.50-10.50dis	-8.31
Sweden	5.3220 - 5.4430	5.3475 - 5.3525	11-14oredis	-28.04	22.00-23.50dis	-17.01
Japan	119.10 - 119.80	119.60 - 119.70	0.09-0.10ydis	-0.95	0.20-0.22dis	-0.70
Austria	10.0180 - 10.1800	10.0540 - 10.0590	5.00-5.35grodis	-6.18	14.30-15.40dis	-5.91
Switzerland	1.2410 - 1.2705	1.2445 - 1.2455	0.42-0.45cdis	-4.19	1.21-1.25dis	-3.95
Ecu	1.3510 - 1.3835	1.3825 - 1.3835	1.25-1.15cdis	-10.41	2.90-2.70dis	-8.10

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

£ IN NEW YORK

[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

*Floating rate. Iran Official rate £119.55 $63.30

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100

FINANCIAL FUTURES AND OPTIONS

[illegible]

Estimated volume 67,760 † Total Open Interest 692,954
† All Yield & Open Interest figures are for the previous day.

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7695	1.7602	1.7441	1.7239	1.6880

BASE LENDING RATES

	%
Adam & Company	9
Allied Trust Bank	10
AIB Bank	9
● Henry Ansbacher	9
B & C Merchant Bank	13
Bank of Baroda	9
Banco Bilbao Vizcaya	9
Bank of Cyprus	9
Bank of Ireland	9
Bank of India	9
Bank of Scotland	9
Banque Belge Ltd	9
Barclays Bank	9
Brit Bk of Mid East	9
● Brown Shipley	9
CL Bank Nederland	9
Citibank NA	9
City Merchants Bank	9
Clydesdale Bank	9
Co-operative Bank	9
Coutts & Co	9
Credit Lyonnais	9
Cyprus Popular Bk	9
Dao Heng Bank (Ldn) Plc	11
Duncan Lawrie	9
Equatorial Bank plc	9
Exeter Bank Limited	9.5
Financial & Gen. Bank	10
● Robert Fleming & Co	9
Robert Fraser & Ptnrs.	9.5
Girobank	9
● Guinness Mahon	9
Habib Bank AG Zurich	9
● Hambros Bank	9
Hampshire Trust Plc	13.5
Heritable & Gen Inv Bnk.	9
● Hill Samuel	9
C. Hoare & Co.	9
Hongkong & Shanghai	9
Julian Hodge Bank	9
● Leopold Joseph & Sons	9
Lloyds Bank	9
Meghraj Bank Ltd	9
McDonnell Douglas Bnk	9
Midland Bank	9
Mount Banking	9
NatWestminster	9
Northern Bank Ltd	9
Nykredit Mortgage Bank	10.5
Provincial Bank PLC	14
● Rea Brothers	9
Roxburghe Bank Ltd.	10
Royal Bk of Scotland	9
● Smith & Williamson Secs.	9
Standard Chartered	9
TSB	9
Unibank plc	9
● United Bk of Kuwait	9
Unity Trust Bank Plc	9
Western Trust	9
Whiteaway Laidlaw	9
Yorkshire Bank	9

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Uncertainty reigns

THREE month money in the sterling cash market fell below the 9 per cent base rate figure as dealers started to discount the possibility of another cut in UK rates before next week's Conservative party conference.

The rate for three month money fell to 8 15/16 per cent on the offered side as dealers speculated that the Chancellor would take the opportunity to cut rates next week. That view was reinforced by sterling's slightly stronger performance on the foreign exchanges, with the currency rising more than a pfennig against the D-Mark yesterday to close at DM2.52.

UK clearing bank base lending rate 9 per cent from September 22, 1992

However, there is continuing doubt about the direction of the UK government's economic policy, and trading was thin. Sterling futures tracked a different course from the cash market. The December contract fell one basis point from its opening level of 91.81 to close at 91.80, reflecting a slightly firmer view on rates. Strictly speaking, the closing price assumes that 3-month money at the year's end will be at 8.2 per cent.

There was no clear indication from the German money market as to the possible outcome of this Friday's Bundesbank council meeting. The German central bank again drained liquidity from the money market in the morning by sales of short-term Treasury bills. It is trying to combat the after effects of the recent interventions to support sterling and the Italian lira.

The colossal scale of that intervention is becoming increasingly clear, with the bank reporting that its gross currency reserves were boosted by DM44.3bn in the week to September 23. This does not take into account the full cost of intervening to support the French franc, and one London-analyst believe that the final cost may be around DM90bn.

However, the Bundesbank later tempered the move by lending funds to banks at a rate well above the market level. It injected paragraph 17 fund into the market at a rate of 9.20 per cent, slightly above call money which traded at 8.80-9.00 per cent.

In its money market operations, the Bank of England forecast a shortage of £800m in the morning and, in early operations, purchased £450m in a repurchase agreement at 8 15/16 per cent. The forecast was later revised down to £500m and late assistance was provided of £55m.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sep 29) 3 months US dollars		6 months US Dollars	
bid 3 [illegible]	offer 3 [illegible]	bid 3 [illegible]	offer 3 [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm					
Prime rate	6	One month	2.39	Three year	4.28
Broker loan rate	5	Two month	3.00	Five year	5.33
Fed funds	3	Three month	2.79	Seven year	5.90
Fed funds at intervention	3 [illegible]	Six month	2.94	10-year	6.37
		One year	3.07	30-year	7.37
		Two year	3.82		

Sep.29	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.95-9.20	8.80-9.00	8.80-9.00	8.80-9.00	8.80-9.00	9.50
Paris	23-27	14-17	-	11 1/2-14 1/2	-	9.60
Zurich	8 1/4-8 1/4	6 3/4-7	-	6 3/4-7	-	-
Amsterdam	-	-	-	-	-	-
Tokyo	4 [illegible]-4 1/4	4 [illegible]-4 [illegible]	-	4 [illegible]-4 [illegible]	-	-
Milan	17 1/4-17 3/4	18-18 [illegible]	-	18-18 1/4	-	-
Brussels	9 [illegible]-9 [illegible]	9 [illegible]-9 [illegible]	9 [illegible]-9 [illegible]	-	-	-
Dublin	-	-	-	-	-	-

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

No.7,964 Set by GRIFFIN

ACROSS

1 Plump boy drops round after fish (6)
4 Evil old weapon found in stable (8)
10 Free to scold student I'd brought round (9)
11 Creeper given to lady 25% off (5)
12 Drive reached, pops into reverse (4)
13 Players I confined to college will be punished (10)
15 Everyone got into debt, that's admitted (7)
16 Fame of owner spread north (6)
19 Read about man holding stick (6)
21 Judge sap a good man at heart (7)
23 Prepare firewood which Chinese consumers use (10)
25 Prevent a lot returning (4)
27 After work are returning to theatre (5)
28 Offensive old boy on Sioux broadcast (9)
29 Swindled out of present, trembled (8)
30 Tasted mixture settled (6)

DOWN

1 Huge firm see to girl's upbringing (8)
2 After bad burn didn't work unchecked (9)
3 Strip sweetheart naked (4)
5 Person checking out raid suspect (7)
6 Not against roughing up opponent (10)
7 Skill of those flying displayed in court (5)
8 Boring as about 500 wood nymphs! (6)
9 Leave helpless bear right inside (6)
14 People cleaning chimneys win race (10)
17 Garment from Ascot involved in delay (9)
18 Looked down on man spied swimming (8)
20 Summary in pie cooking book (7)
21 Kidding relatives, run outside (6)
22 A County Council ring road agreement (6)
24 Open up, Trevor, right away! (5)
26 Leave divorcee with sex appeal (4)

Solution to Puzzle No.7,963

PERFORCE WEIGHT / ENQUIRED IMPUGN / CREAM DRAWNGAME / ROLLER ETHICAL / ARTFILM COLUMN / MOUSETRAP LEMUR / STILTS BELPAESE / NATURE ASBESTOS

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close September 29

MONTREAL

4 pm close September 29

Total Sales 19,788,100 shares

INDICES

NEW YORK

DOW JONES	Sep 29	Sep 28	Sep 25	Sep 24	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3266.80	3276.26	3250.32	3287.87	3413.21 (1/6)	3172.41 (2/1)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	102.98	102.93	102.64	102.84	103.20 (18/9)	98.41 (20/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1287.65	1284.62	1273.34	1287.85	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219.83	220.96	219.08	218.70	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl. Day's High 3295.98 (3283.01) Low 3247.08 (3226.56) (Theoretical♦)
Day's High 3280.04 (3276.26) Low 3259.24 (3243.03) (Actual♦)

STANDARD AND POOR'S

	Sep 29	Sep 28	Sep 25	Sep 24	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	416.80	416.62	414.35	418.47	425.27 (14/9)	394.50 (8/4)	425.27 (14/9/92)	4.40 (1/6/32)
Industrials	489.96	489.99	487.23	493.39	503.30 (14/9)	470.91 (8/4)	503.30 (14/9/92)	3.62 (21/6/32)
Financial	35.63	35.54	35.46	35.47	36.66 (3/8)	32.40 (8/4)	36.66 (3/8/92)	8.64 (1/10/74)
NYSE Composite	228.90	228.70	227.73	229.98	233.73 (14/9)	217.92 (8/4)	233.73 (14/9/92)	4.46 (25/4/42)
Amex Mkt. Value	375.61	377.25	378.49	380.94	418.99 (12/2)	374.04 (26/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	577.62	575.34	577.20	585.93	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Sep 25	Sep 18	Sep 11	year ago (approx.)
Dow Industrial Div. Yield	3.19	3.10	3.12	3.08

	Sep 23	Sep 16	Sep 9	year ago (approx.)
S & P Industrial div. yield	2.68	2.63	2.64	2.73
S & P Indl. P/E ratio	27.57	27.77	27.46	21.15

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Sears Roe	5,883,600	44½	+ 3¼
Med Care	3,297,800	23⅝	+ 1½
Merck	2,636,200	44	+ ¼
Gen Motors	2,458,000	32	---
Glaxo	2,182,500	27	+ 1⅛
IBM	2,139,600	81	- 1¼
Wellcome	1,810,800	16⅛	+ ⅛
Telefonos	1,688,900	43⅞	+ 1⅛
Bristol Myers	1,637,700	63¼	+ 1⅛
Syntex	1,452,100	26⅞	+ ¼

TRADING ACTIVITY

† Volume (Millions)	Sep 29	Sep 28	Sep 25
New York SE	170.360	157.480	213.650
Amex	9.435	7.470	10.359
NASDAQ	(u)	124.359	198.494
NYSE			
Issues Traded	2,312	2,304	2,283
Rises	866	909	599
Falls	813	788	1,112
Unchanged	633	607	572
New Highs	41	25	46
New Lows	39	46	35

CANADA

TORONTO	Sep 29	Sep 28	Sep 25	Sep 24	1992 HIGH	1992 LOW
Metals & Minerals	2841.07	2884.10	2895.67	2922.04	3238.87 (16/1)	2828.26 (8/4)
Composite	3327.24	3367.99	3385.49	3410.61	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1719.48	1738.26	1750.97	1768.82	1937.59 (16/1)	1719.48 (29/9)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

	Sep 29	Sep 28	Sep 25	Sep 24	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1487.8	1496.5	1496.4	1507.2	1684.50 (22/5)	1478.90 (9/9)
All Mining (1/1/80)	665.2	669.5	664.7	666.6	726.80 (3/7)	652.40 (9/9)
AUSTRIA						
Credit Aktien (30/12/84)	332.85	334.33	337.68	337.87	458.57 (24/2)	291.41 (13/8)
Traded Index (2/1/91)	812.46	817.12	828.13	828.11	1099.43 (24/2)	682.96 (13/8)
BELGIUM						
BEL20 (1/1/91)	1107.20	1109.10	1118.66	1121.58	1235.40 (2/6)	1046.07 (2/9)
DENMARK						
Copenhagen SE (3/1/83)	262.57	263.54	266.28	264.30	365.29 (15/1)	262.57 (29/9)
FINLAND						
HEX General (28/12/90)	596.6	591.1	591.0	584.1	935.90 (24/2)	541.00 (7/9)
FRANCE						
CAC General (31/12/82)	468.62	481.13	487.29	486.33	555.93 (12/5)	462.23 (2/9)
CAC 40 (31/12/87)	1731.93	1770.26	1843.53	1829.50	2077.49 (11/5)	1667.72 (25/8)
GERMANY						
FAZ Aktien (31/12/58)	583.58	584.99	596.63	602.72	725.26 (26/5)	582.34 (26/8)
Commerzbank (1/12/53)	1646.08	1650.60	1685.20	1700.30	2043.80 (25/5)	1642.70 (26/8)
DAX (30/12/87)	1476.26	1475.04	1513.36	1530.94	1811.57 (25/5)	1468.91 (25/8)
HONG KONG						
Hang Seng Bank (31/7/64)	5581.92	5597.20	5686.16	5658.73	6162.53 (16/7)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1161.20	1189.50	1220.69	1237.52	1469.57 (17/1)	1161.20 (29/9)
ITALY						
Banca Com. Ital. (1972)	358.82	360.45	361.60	367.12	551.59 (6/2)	354.93 (16/9)
MIB General (2/1/92)	706.0	708.0	709.0	721.0	1086.00 (5/2)	696.00 (16/9)
JAPAN						
Nikkei (16/5/49)	17748.09	17972.61	18394.76	18609.95	23801.18 (6/1)	14309.41 (18/8)
Tokyo SE (Topix) (4/1/68)	1311.72	1349.09	1371.53	1381.18	1763.43 (6/1)	1102.50 (18/8)
2nd Section (4/1/68)	1732.16	1744.24	1748.10	1744.32	2459.85 (6/1)	1502.77 (19/8)
MALAYSIA						
KLSE Composite (4/4/86)	605.93	610.65	602.60	593.07	619.06 (20/2)	546.63 (14/1)
NETHERLANDS						
CBS Ttl Rtn Gen.(End 1983)	(u)	291.9	294.1	295.9	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	(u)	196.8	198.3	199.5	215.50 (26/5)	189.70 (25/8)
NORWAY						
Oslo SE (Ind) (2/1/83)	584.38	571.98†	581.30	586.85	772.74 (18/5)	532.43 (25/8)
PHILIPPINES						
Manila Comp (2/1/85)	1395.36	1386.47	1389.61	1386.42	1580.95 (11/6)	1083.01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	363.63	362.04	360.98	358.56	416.99 (21/1)	354.15 (19/8)
SOUTH AFRICA						
JSE Gold (28/9/78)	896.0	903.0	914.0	907.0	1327.00 (21/1)	857.00 (10/9)
JSE Industrial (28/9/78)	4196.0	4197.0	4201.0	4181.0	4689.00 (4/6)	3973.00 (24/8)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	514.11	516.04	525.57	523.35	691.48 (8/2)	459.07 (21/8)
SPAIN						
Madrid SE (30/12/85)	193.62	195.02	199.77	198.15	266.51 (28/2)	193.62 (29/9)
SWEDEN						
Affarsvariden Gen. (1/2/37)	654.10	672.4	697.9	708.9	1014.50 (11/5)	654.10 (29/9)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	847.6	847.5	863.0	861.8	883.40 (11/5)	748.50 (8/1)
SBC General (1/4/87)	640.3	640.2	649.4	647.8	682.30 (11/5)	596.40 (26/8)
TAIWAN**						
Weighted Price (30/6/66)	3397.29	(c)	3472.50	3540.48	5391.63 (30/1)	3351.63 (26/9)
THAILAND						
Bangkok SET (30/4/75)	850.52	849.07	859.17	863.61	871.37 (23/9)	667.84 (19/5)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	502.2*	501.3	502.5	505.9	542.10 (7/1)	467.50 (8/4)
Euro Top-100 (26/6/90)	812.67	817.26	842.63	849.72	976.55 (25/5)	793.32 (25/8)

**Saturday September 26: Taiwan Weighted Price: 3351.63, Korea Comp Ex. 524.23
& Subject to official recalculation. †-Correction. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday, September 29 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Min & Sml	10.3m	488	-10	Nippon Mining	2.9m	502	+3
Green Cross	6.7m	1,690	-40	NEC Corp	2.8m	713	-4
Kubota Corp	6.9m	670	+19	Meiji Milk Prod	2.8m	980	-1
Takashimaya	4.2m	844	-19	Toshiba Corp	2.7m	675	-23
Aishin Seiki	3.6m	895	+23	Godo Shusei	2.5m	598	+28

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. (u) Unavailable. ø Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

† Owing to technical problems at Telekurs, Spanish prices in yesterday's editions were pre-close.

4 pm close September 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

هكذا من الأصل

NYSE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
78	63½	Sallie Mae	1.00	1.4		2102	71½	70¾	70¾	-½
14¼	13	Salomon Br.	0.60	4.3		95	14	13⅞	14	
37⅞	28¾	Salomon Inc x	0.64	1.7	11	4622	37⅞	36¼	37⅛	+⅝
25	21¼	SanDgo G&E	1.44	5.9	14	666	24½	24¼	24½	+¼
4⅞	2⅞	SantaFeEDu x	0.40	10.0	44	37	4¼	4	4	-⅛
9⅞	7	SantaFeERs x	0.16	1.7	227	474	9⅝	9½	9½	-⅛
39¾	30¾	SantaFePac	2.80	7.2	11	48	38⅞	38⅝	38⅝	-⅞
14⅛	10⅞	SantaFeSth	0.10	0.8	175	172	12	11⅞	11⅞	+⅛
58⅞	46⅝	Sara Lee	1.00	1.7	18	3986	u58½	57½	57⅞	+⅛
9½	1¼	Savin			0	4	1⅝	1½	1½	
44⅞	38⅝	Scana Corp	2.68	6.2	14	173	43	42⅝	43	+⅛
47⅞	40¼	Scecorp	2.80	6.2	13	2060	45⅛	44⅞	45⅛	-⅞
68	49⅞	ScheringPl	1.56	2.8	16	1080	56½	55⅛	56⅛	+⅝
69⅞	52¼	Sch'berger	1.20	1.8	19	3492	67⅞	66⅛	67⅞	+⅛
37¾	17⅞	Schwab(C)	0.24	1.4		81631	17⅞	d17⅛	17⅛	-⅛
10⅛	4⅞	Schwitzer			45	122	5⅛	5	5	-⅛
29⅞	15⅛	ScientAtln	0.16	0.6	40	1436	28	27⅛	28	+⅛
10⅝	7⅛	Scotman x	0.10	1.1	110	96	8⅞	8⅛	8⅞	+⅛
46	34½	ScottPaper	0.80	2.1	19	981	39	38⅝	38⅞	-⅛
17½	13⅝	ScudderNAsF	0.22	1.5		78	14⅞	14⅛	14⅞	+⅛
9⅞	8⅛	ScudderNEuF	0.30	3.4		73	8⅞	8⅛	8⅞	+⅛
24	16	Sea Contra	0.20	1.3	9	2	15¼	15¼	15¼	
16⅛	14⅞	SeaC1.46CS	1.46	9.6		3	15⅛	15½	15¼	-⅛
31	26⅞	Seagram Co	0.56	2.0	162	126	28¼	27⅞	28⅛	-⅛
32	21⅝	Seagull En			105	227	30⅝	30⅝	30⅝	
28½	22	Sealed Air			11	225	23⅛	22⅞	23⅛	-⅛
23	12⅛	SPX Corp	0.40	2.4	22	184	16⅝	15⅝	16⅜	+⅞
48	37	Sears Roeb	2.00	4.5	11	5620	45⅞	44½	44⅞	+⅞
47½	28½	Xtra Corp	0.80	1.8	13	16	46¼	45⅞	45⅝	+⅛
30⅛	25¼	Yankee Egy	1.66	5.5	14	9	u30¼	30½	30¼	+⅛
1½	½	Zapata			25	180	1⅛	1	1	
11⅞	6	ZenithElec			3	692	6⅛	d6	6	-⅛
19½	14½	Zenith Nat	1.00	6.0	8	36	16⅞	16⅝	16⅝	-⅛
7½	6	Zenix Inc x	0.82	11.3		295	7¼	7⅛	7¼	+⅛
13⅞	10	Zero Corp	0.40	3.5	16	289	11⅝	11⅜	11½	
38	27¾	Zurn Ind x	0.88	2.9	33	205	31⅛	30⅞	30⅞	-⅛
14⅞	12	Zweig Fund	1.14	8.8		173	13	12⅞	13	
11	9½	Zweig Total	0.96	9.1		459	10½	10⅜	10½	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close September 29

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Perini	0.80	21	14	11⅞	11¼	11¼	
Pet HI&P	1.14	13	14	18⅞	18⅛	18⅞	+⅛
Phil LD	0.28	16	160	39	38⅝	38¾	+⅛
Pitway A	1.10	16	10	29⅞	29¾	29⅞	+⅛
Ply Gem	0.12	22	98	10⅛	10⅛	10⅛	
PMC x	0.66	14	140	10⅝	10½	10⅝	+⅛
PresidioA	0.10	1	389	1⅛	d1¼	1⅛	-⅛
Price Com		0	244	1/16	d1/16	1/16	

NASDAQ NATIONAL MARKET

4 pm close September 29

AMERICA

Hopes of rate cut stop Dow falling further

Wall Street

US SHARE prices ended slightly lower yesterday after hopes for another cut in interest rates were overshadowed by more bad news on the economy, *writes Patrick Harverson in New York.*

At the close the Dow Jones Industrial Average was down 9.46 at 3,266.80, while the more broadly based Standard & Poor's 500 ended 0.18 higher at 416.80. The Amex composite slipped 1.64 to 375.61 and the Nasdaq composite added 2.29 at 577.63. Turnover was 171m shares.

The morning's economic news sparked an early sell-off. The Conference Board announced that its September index of consumer confidence fell to 56.4, from 59.0 in August. The decline was bigger than expected, and when combined with news of a 0.2 per cent drop in August's leading economic indicators, confirmed that economic conditions throughout the country remain weak.

Although depressing, the figures raised hopes that the Federal Reserve might cut interest rates one more time, and this prevented share prices from falling too far yesterday. Investors were speculating that the Fed may ease policy on Friday if the September employment report is particularly weak.

Among individual stocks the big feature of the day was Sears Roebuck, which after a delay because of an order imbalance on the buy side, jumped $3⅞ to $44⅞ in turnover of 5.4m shares after the giant retailer announced it was selling off a large chunk of its profitable financial services operations. The deal, which should raise more than $3bn in cash to reduce group debt, was seen as a move to realise shareholder value and allow Sears to concentrate on core businesses.

Rail stocks were also active after securities house Morgan Stanley recommended the sector. Among those to benefit most were Consolidated Rail, up $1⅞ at $40⅞, CSX, up $1 at $59, Norfolk Southern, $⅞ higher at $55⅞, and Union Pacific, $⅞ firmer at $54⅞.

Times Mirror fell $1¾ to $31¼ after the newspaper publishing group warned that August advertising revenues were down 5.6 per cent on a year ago.

Middleby soared $⅝ to $2⅝ on the American Stock Exchange after the company said it won a $27m verdict in its breach of contract action against Whitman Corp, which fell $¼ to $12½.

SAO PAULO closed up 7.7 per cent at 45,316 yesterday, *writes Bill Hinchberger in Sao Paulo.* Trading was heavy, at just over $100m, up from $70m on Monday. The market closed prior to the parliamentary vote on the impeachment of President Fernando Collor de Mello, but the upsurge reflected growing expectations during the day that the resolution would be approved.

Canada

TORONTO stocks suffered their biggest one-day drop since April as a plunging Canadian dollar and uncertainty surrounding the upcoming constitutional referendum affected sentiment.

The TSE 300 composite index sank 40.75 points, or 1.21 per cent, to end at 3,327.24. Declining issues swamped advances 414 to 179. Volume was 36.206m shares worth C$396.8m against 23.625m shares worth C$266.6m on Monday.

Petro-Canada was up ⅛ to 9¼ after it said it will cut its debts. Telepanel shares jumped 0.475 to 5⅝ after it signed a marketing agreement with IBM Corp. BP Canada stock was up ¼ to 14¾.

Investing after the currency turbulence

Three international money managers discuss their views with **Peter Martin**

If you are a fund manager, how you view the events of the past few weeks depends on where you sit. For sterling-based international investors, the devaluation of the pound has produced a helpful boost to performance: in sterling terms the FT-Actuaries World index excluding the UK has risen by 13 per cent in the past three weeks; in dollars it has fallen 2 per cent.

For investors elsewhere, the news has been more mixed. As the chart shows, since the Bath meeting of EC finance ministers at which the ERM's tensions first came to a head in early September, only three of the ten stock markets shown have risen in value in local currency terms: the UK, Switzerland and the Netherlands. The others have all fallen, with Japan – down nearly six per cent – the worst performer.

For one international manager, Henry Looser, head of private banking at Bank Julius Baer in Zurich, a lot has changed in the past few weeks. Until recently, he had taken his most aggressive equity position of the past 20 years. Now, with rallies in the UK, Switzerland and Italy, he has readjusted his portfolios towards a more normal weighting, pulling out of a number of equity markets entirely. "We have no further holdings in Italy or Spain," he said yesterday, "and Britain is a market we have really sold out of in the last two to three days – and we have even started to go short there."

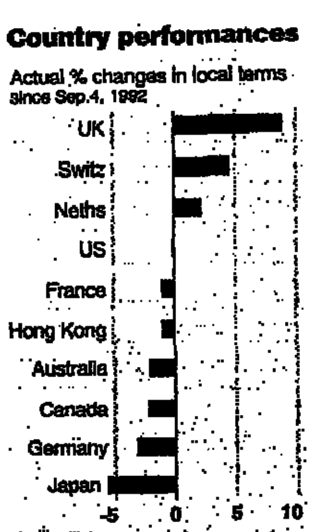
In equity markets generally, the risk of earnings disappointments is high, he believes, and it will be possible to buy back in at lower levels. "There is a lot of disappointment ahead," he says. "It's a minefield, and we will see mines exploding, taking the market down with them."

In particular, the outlook for the German economy is very poor, he says, and D-Mark interest rates are likely to remain at high levels into the first or second quarter of 1993.

For Robin Apps, head of European equities at UBS Phillips & Drew Fund Management in London, the outlook is dominated by currency considerations. The dollar is still cheap on a purchasing power basis, he argues; sterling could go a lot lower if the British government decides to dash for growth; the French franc has probably escaped imminent danger of devaluation against the D-Mark but at a price – in terms of short-term interest rates – that may prove unsustainable.

Country performances

Actual % changes in local terms since Sep.4, 1992



Source: Datastream

"As a house we've been perennially bearish on equities," he says, because of an overall expectation of recession, and that position has not changed. "At the margin, however, in certain countries one might expect slightly more growth." One of these is the UK, "if it can get away with a beggar-my-neighbour devaluation."

Germany is slowing down quite markedly, he believes, with little prospect of an interest rate easing there until the federal government either raises taxes or cuts back on payments to the east. "That is the moment at which the Bundesbank will ease," he says.

Even before that moment, however, he is overweight in Germany, believing that many German companies would offer good value if they were managed on an Anglo-Saxon basis, with return to shareholders the central consideration. "Whether they ever do that is debatable, however," he says.

That long-term play is also part of the investment strategy of William Holzer, who manages the Scudder Global Fund in New York. Like Apps, he is significantly overweight in Germany and Switzerland. In other respects, however, his views offer a marked contrast: as a US-based manager, he can afford to display an Olympian disregard of the events of the last few weeks.

He is overweight in Switzerland not so much as a country decision, but because he believes "you can buy global companies cheaper there than anywhere else." Elsewhere, his decisions are dominated by big-picture themes. The last big shift, into undervalued financial services companies, dated back "a couple of years or so".

He thinks another big shift is coming up soon, to adapt to the impact of an ageing baby boom and a shift of manufacturing out of developed countries to the Third World. "The dynamic of the old system was the inflation of collateral," he says. "This time round, it is the infinite ability of the ldcs to absorb capital and offer a high return on it."

That leads him to favour global companies which are the essential technology transfer agents for this process, and savings institutions which will handle the baby boomers' need to save for retirement.

ASIA PACIFIC

September book closing fails to give Nikkei a lift

Tokyo

SMALL-LOT selling and futures-linked arbitrage unwinding depressed share prices in thin trading, and the Nikkei average closed down in spite of buying by public funds, *writes Emiko Terazono in Tokyo.*

The Nikkei index fell 224.52 to 17,748.09 after a high of 18,066.21 and a low of 17,565.21. Volume rose to 240m shares from 203m. Declines led advances by 813 to 151 with 138 unchanged. The Topix index of all first section stocks fell 17.37 to 1,331.72 and, in London, the ISE/Nikkei 50 index fell 0.29 to 1065.85.

Traders noted small-lot buying by public funds in the morning session. However, institutional investors remained inactive, prompting disappointed investors to liquidate holdings.

Expectation of a rally ahead of the September book closing had previously lifted share prices. However, Mr Yasuo Ueki at Nikko Securities said that since banks have been exempted from including valuation losses on stockholdings in their interim earnings results, large-lot window dressing has not been seen.

The yen moved slightly higher against the dollar, depressing exporters. Toshiba fell Y23 to Y575 and Fujitsu lost Y27 to Y578. Toyota Motor declined Y40 to Y1,370 and Nissan fell Y34 to Y581.

Speculative short term traders dominated business. Mitsui Mining & Smelting, the most active issue of the day, fell Y10 to Y498. Aids-related issues lost ground, with Meiji Milk Products down Y1 to Y990 and Green Cross down Y40 to Y1,590.

Kubota, a leading maker of farm equipment and ductile iron pipes, rose Y19 to Y570, on its classification as a leading environmental stock.

Hazama, the construction company which will become a component stock of the Nikkei index next month, rose Y5 to Y506. Seika also drew buying interest, adding Y7 to Y703.

Godo Shusei, which in turn will be dropped from the Nikkei on October 1, rebounded on bargain hunting, advancing Y28 to Y598. The issue was sold heavily on Monday due to the announcement of the exclusion.

In Osaka, the OSE average lost 350.52 to 19,151.72 in volume of 20.6m shares.

Roundup

APART from Taiwan, and in some individual shares, the region's equity markets moved narrowly yesterday.

BANGKOK saw Krisda Mahanakorn, the property group, hit its 10 per cent downward limit for the second consecutive day. The SET index was 1.45 higher at 850.52 in turnover of Bt12.2bn.

Krisda Mahanakorn dropped Bt20 to Bt184 in turnover of Bt2.3bn while Bangkok Land lost Bt2 to Bt132.

TAIWAN rose on institutional buying of blue chips, but brokers said that investor confidence remained weak. The weighted index closed 45.66 or 1.4 per cent higher at 3,397.29. Turnover dropped to T$10.8bn.

NEW ZEALAND continued its fall as FCL lost 9 cents to NZ$1.91. The NZSE-40 capital index closed 8.55 lower at 1,426.07 in turnover of NZ$30m.

Carter Holt closed up 4 cents at NZ$2.58 while Air NZ lost 9 cents to NZ$2.52.

AUSTRALIA ended weaker as the market paid little attention to a better than expected August current account deficit. The All Ordinaries index closed 8.7 down at 1,487.7 in turnover of A$289.9m.

TNT closed 3 cents lower at A$1.00 following news that Sir Peter Abeles, the managing director, had resigned to concentrate on the group's Ansett Transport Industries.

HONG KONG eased after institutional selling reversed morning gains. The Hang Seng index fell 15.28 to 5,581.92 after rising almost 40 points in the morning. Turnover rose to HK$1.78bn from HK$1.57bn.

MANILA was stronger on bargain-hunting as PLDT made steady gains. The composite index gained 8.89 to 1,395.36 in turnover of 440m pesos. PLDT gained 5 pesos to 970 pesos.

SINGAPORE was steadier on selective gains in blue chips. The Straits Times Industrial index rose 3.98 to 1,353.79 in volume of 51.9m shares.

KUALA LUMPUR reversed three consecutive days of advances and the composite index shed 4.72 to 605.93. Falls led rises by 210 to 60, in volume of 63.7m shares against Monday's 119m.

BOMBAY fell in thin volume, displaying neither investment nor speculative interest as the BSE index fell 44.23 to 3,195.75. Brokers said that the market was drifting ahead of a four-day holiday weekend beginning this Friday.

SOUTH AFRICA

JOHANNESBURG eased on continued uncertainty over domestic political developments. Buying of index-linked shares helped the industrial index bounce off lows to close 1 down at 4,196. The overall index eased 4 to 3,198 and golds fell 7 at 896.

EUROPE

Late buying brings Paris little consolation

THERE was a suggestion of US buying as the FT-SE Eurotrack 100 index improved from its lows in the late afternoon, but this brought little consolation to the Paris bourse, *writes Our Markets Staff.*

PARIS fell another 2.1 per cent as hopes for an easing in interest rates diminished. Some analysts also pointed to the weakness in the dollar and arbitrage between the futures and cash markets. The CAC-40 index closed down 38.33 at 1,731.93 in turnover of FFr2.5bn.

Mr Andrew Bell, European strategist at BZW in London, said the fact that there was no sign of an easing in monetary policy by the Bundesbank (its next meeting is scheduled for Friday), together with expectations of lower earnings this year was having a negative effect on sentiment.

Financial stocks suffered, with Suez losing FFr11.90 to FFr239.50, and Paribas weakening FFr22.70 or 6.7 per cent to FFr313.30 ahead of first half results. Total saw selling following a presentation in London to close FFr7.10 weaker at FFr203.00.

BRUSSELS hit trouble in steel shares. Clabecq, which announced heavy job cuts and salary reductions on Monday as part of a restructuring programme, crashed 19.3 per cent to BFr460 after trade was halted several times for limit-downs. The Bel-20 Index fell 1.90 to 1,107.20.

Meanwhile the Luxembourg-based Arbed showed a severe drop in first half profits and fell 4.6 per cent to a 1992 low of BFr2,655, before plans to cooperate on long steel products with French steel giant Usinor-Sacilor allowed it to recover to BFr2,760, just BFr20, or 0.7 per cent down on the day.

FRANKFURT saw some price volatility below international blue chips level as the DAX index rose 1.22 to 1,476.26.

Turnover rose from DM3.8bn to DM4.2bn. Most carmakers recovered from early lows after being hit hard on Monday. BMW rose DM3 to DM470 after DM461.50, and Volkswagen DM3.50 to DM279.50 after DM275. However Porsche dropped DM20 to DM500 after saying that it will lay off 1,000 employees this year after 943 in 1991-92.

Meanwhile, said Mr Deltlev Klug at B Metzler in Frankfurt, dealers took the initiative in steels, which have been severely depressed recently.

Mannesmann put on DM8.50 to DM215 and Klöckner-Werke and Thyssen rose in sympathy, by DM4.50 to DM71 and DM4.50 to DM166.50 respectively.

STOCKHOLM retreated for its third consecutive day, the Affärsvärlden index losing 18.3 to 654.1 in turnover of SKr446m. Svenska Handelsbanken, which reported a 80 per cent fall in interim earnings, saw its B shares lose SKr2 to SKr27.

Skanska B rose SKr2.50 to SKr38.50 in spite of news that Mr Lars-Ove Hakansson, the chairman, had resigned following losses incurred in its currency trading department.

MILAN was mixed, the Comit index closing 1.63 lower at 358.82. In banking, Ambroveneto rose 2.4 per cent, or L73 to L2,063 on media reports that Gemina was seeking to sell its 13.5 per cent stake. Gemina rose L19 to L799.

AMSTERDAM improved slightly, encouraged by a cut in commercial bank interest rates. The CBS Tendency index rose 0.2 to 111.0.

ZURICH recovered from intraday lows after late foreign buying, the SMI index closing 1.0 higher at 1,880.2, almost 20 points above the day's low. Dealers said that late trading became lively when US investors entered the market.

ATHENS fell again on the scramble out of stocks and into high-yield government bills.

The general share index dropped for the fifth consecutive trading day, this time by 27.93 or 4.1 per cent to 645.11, down 14.5 per cent since western Europe's currency crisis began to surface on September 7.

OSLO rose on the takeover battle for the chocolate maker, Freia Marabou. The all-share index closed 3.99 higher at 327.61 in turnover of NKr156m.

Freia B soared NKr130 to NKr430 after the board said that it was recommending a NKr450 bid from a Philip Morris unit although the rival bidder, Hershey Foods, said that it had not given up hope of buying Freia.

COPENHAGEN saw Unidanmark A fall DKr4 to DKr123 as analysts said that the bank will lose around DKr2.5bn this year, *writes Hilary Barnes.* The all-share index closed 0.97 lower at 262.57.

FT-SE Eurotrack 100 - Sep 29

Hourly changes

Open	11.30am	12 pm	1 pm	2 pm	3 pm	4 pm	close
1006.89	1007.09	1006.37	1006.90	1006.52	1005.73	1010.27	1009.98

Day's High   Day's Low 1014.92

Sep 28	Sep 25	Sep 24	Sep 23	Sep 22
1016.40	1035.63	1041.31	1043.77	1044.34

Base value 1000 (26/10/90).

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY SEPTEMBER 29 1992								MONDAY SEPTEMBER 28 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	124.70	−1.1	104.48	94.31	92.32	115.95	−0.6	4.23	126.05	108.02	95.21	95.09	116.66	153.68	124.36	153.47
Austria (19)	161.81	+0.9	135.58	122.39	119.80	120.16	−0.9	2.43	160.43	137.48	121.19	121.02	121.27	186.70	139.27	183.49
Belgium (42)	145.94	+1.7	122.28	110.37	108.04	105.81	−0.2	5.82	143.55	123.02	108.43	108.29	106.03	152.27	135.87	128.37
Canada (114)	117.62	−2.1	98.55	88.96	87.08	107.02	−1.3	3.31	120.16	102.97	90.78	90.64	108.41	142.12	117.62	135.98
Denmark (33)	205.46	+0.3	172.15	155.40	152.11	154.25	−1.2	1.84	204.82	175.53	154.72	154.51	156.14	273.94	196.78	257.80
Finland (15)	56.55	+1.9	47.38	42.77	41.86	53.88	+0.4	2.62	55.49	47.56	41.92	41.88	53.66	89.80	52.84	85.52
France (102)	159.29	−0.2	133.47	120.47	117.92	120.31	−1.8	3.74	159.61	136.79	120.56	120.40	122.50	168.75	148.06	144.95
Germany (64)	113.43	+1.6	95.04	85.80	83.97	83.97	−0.3	2.72	111.64	95.68	84.34	84.22	84.22	129.69	111.48	110.38
Hong Kong (53)	231.54	−0.2	194.00	175.12	171.42	229.79	−0.2	3.82	232.05	198.88	175.28	175.06	230.29	259.55	176.36	168.92
Ireland (16)	146.13	−1.1	122.44	110.53	108.19	111.85	−2.8	4.82	147.76	126.63	111.62	111.47	115.13	173.71	145.54	161.36
Italy (78)	51.96	+1.4	43.54	39.30	38.47	46.85	+0.3	4.45	51.23	43.90	38.69	38.64	46.73	80.86	49.25	73.27
Japan (473)	111.13	−1.4	93.11	84.05	82.29	84.05	−1.3	1.01	112.75	96.63	85.17	85.07	85.17	140.95	87.27	137.14
Malaysia (69)	249.68	−0.4	209.20	188.83	184.84	240.69	−0.6	2.72	250.65	214.80	189.33	189.08	242.25	250.65	212.49	198.20
Mexico (18)	1196.46	+0.9	1002.46	904.91	885.78	4062.45	+0.9	1.48	1185.84	1016.25	895.76	894.57	4024.46	1789.77	1185.84	1181.57
Netherland (25)	168.68	+1.8	141.33	127.58	124.88	123.30	−0.1	4.60	165.62	141.94	125.11	124.94	123.37	168.68	147.88	140.68
New Zealand (14)	40.79	−0.3	34.18	30.85	30.20	40.29	−0.5	5.49	40.92	35.07	30.91	30.87	40.49	48.52	40.79	47.52
Norway (22)	143.31	+0.1	120.07	108.39	106.10	112.24	−1.9	2.16	143.14	122.67	108.13	107.99	114.39	192.95	136.40	201.28
Singapore (38)	187.54	+0.6	157.13	141.84	138.84	137.93	+0.1	2.38	186.45	159.78	140.84	140.65	137.73	229.63	180.71	190.01
South Africa (61)	175.97	−0.1	147.44	133.09	130.28	156.37	−0.4	3.27	176.18	150.98	133.08	132.90	157.01	263.60	175.03	242.55
Spain (49)	119.03	+1.9	99.73	90.03	88.12	89.86	−0.7	6.61	116.82	100.12	88.25	88.13	90.49	161.72	115.94	156.38
Sweden (30)	156.62	+0.1	131.23	118.46	115.96	124.05	−1.6	3.32	156.39	134.03	118.14	117.98	126.12	200.28	156.39	189.62
Switzerland (60)	121.64	+2.2	101.92	92.01	90.07	93.89	+0.1	2.28	119.02	102.00	89.91	89.80	93.79	121.64	95.99	94.27
United Kingdom (226)	179.61	+2.3	150.48	135.83	132.96	150.49	+0.0	4.88	175.52	150.42	132.57	132.39	150.42	200.07	165.85	185.37
USA (522)	169.89	+0.1	142.34	128.49	125.78	169.89	+0.1	2.99	169.76	145.48	128.24	128.07	169.76	173.39	160.92	158.12
Europe (782)	143.70	+1.7	120.40	108.68	106.39	113.40	−0.4	4.16	141.36	121.14	106.78	106.64	113.81	156.88	138.52	143.96
Nordic (100)	147.59	+0.2	123.66	111.63	109.26	110.68	−1.5	2.70	147.25	126.19	111.23	111.08	112.35	188.52	147.25	187.16
Pacific Basin (715)	115.21	−1.3	96.53	87.14	85.29	89.17	−1.2	1.35	116.75	100.05	88.19	88.07	90.25	141.97	93.70	137.80
Euro - Pacific (1497)	126.73	+0.0	106.18	95.84	93.82	99.05	−0.8	2.64	126.71	108.59	95.70	95.58	99.87	145.21	113.80	140.65
North America (636)	166.63	+0.0	139.61	126.04	123.39	165.61	+0.0	3.00	166.67	142.83	125.91	125.75	165.58	170.49	158.70	156.68
Europe Ex. UK (554)	122.07	+1.2	102.28	92.34	90.39	93.06	−0.7	3.64	120.67	103.41	91.17	91.05	93.87	132.98	119.63	119.61
Pacific Ex. Japan (242)	155.15	−0.5	130.00	117.37	114.88	140.43	−0.4	3.75	155.91	133.61	117.79	117.62	140.99	175.31	149.00	145.34
World Ex. US (1690)	127.55	+0.0	106.87	96.48	94.43	100.94	−0.8	2.66	127.60	109.35	96.39	96.26	101.77	146.91	116.18	142.18
World Ex. UK (1984)	137.19	−0.3	114.94	103.77	101.58	119.27	−0.5	2.54	137.56	117.89	103.92	103.78	119.89	150.58	127.21	142.80
World Ex. So. Af. (2151)	140.71	+0.0	117.90	106.43	104.18	121.75	−0.5	2.79	140.70	120.58	106.29	106.15	122.31	153.05	130.04	145.87
World Ex. Japan (1739)	157.93	+0.5	132.32	119.46	116.94	144.03	−0.1	3.44	157.08	134.61	118.66	118.51	144.23	165.40	153.20	152.85
The World Index (2212)	140.66	+0.0	118.02	106.54	104.29	122.09	−0.5	2.79	140.85	120.71	106.40	106.26	122.65	153.70	130.66	146.50

PERSONAL COMPUTERS AND SOFTWARE

Evidence for the profound changes sweeping the industry has emerged with PCs moving to centre stage. But the revolution, which this year has also seen prices tumbling, is presenting problems for the manufacturers, writes Alan Cane

A time for bargains

THE turnaround in the computer industry is as shattering as if the earth had finally been revealed as the true centre of the galaxy, circled by the sun, moon and planets.

In the past year, the lowly personal computer has emerged as the mainstay of the computer business. In just over a decade it has been responsible for carving a new profile for the industry while destroying a market infrastructure built up over 30 years.

Some will argue that this has been inevitable since the Apple II made its debut in 1978, despite the refusal of many in the mainframe business either to see or accept the decline of the traditional industry.

Nobody now doubts, however, that the future of data processing lies with PCs and workstations linked in powerful networks rather than with mainframes, minicomputers and data centres. Mainframe computers will increasingly be relegated to a peripheral role as network servers, in contrast to their former position at the hub of corporate data processing empires.

A number of remarkable developments over the past 12 months or so have signalled the industry's acceptance of the PC in its new role.

First, PCs have become commodities. Traditional computer manufacturers and PC vendors have made a dash for the lower ground this year, launching new ranges of PCs at astonishingly low prices. Computer users therefore have the choice between "value for money" or "premium" products.

Some manufacturers, such as International Business Machines (IBM), have tried to disown their bargain basement products: in Europe, IBM has established a separate, wholly-owned company to sell Ambra PCs.

Others, including Compaq, the US-based leader in high performance PCs, and Zenith, the PC arm of Groupe Bull of France are trying to establish the two distinct categories of product within the same range.

Hewlett Packard, on the other hand, is opting only for the low-price approach. The large manufacturers have been driven to adopt these strategies by the continuing success of "no-name" or clone manufacturers who now hold close to half the global PC market.

This is powerful evidence that customers are quite prepared to buy on price alone, with the assumption that quality will be acceptable; the success of Compaq's low priced range suggests, however, that the combination of a low price and recognised branding is irresistible.

The impact of no-name vendors on the market share of established players has been considerable. In Europe and elsewhere International Data Corporation figures show IBM remains the market leader but its 19.1 per cent share by value is far removed from the greater than 40 per cent share of the market it once held. Compaq and Olivetti at 7.4 per cent and 5 per cent respectively are not surprises, but the German no name vendor Vobis sells more machines in Germany than IBM, and has a 2.1 per cent share of the European market.

Figures from the marketing consultancy InfoCorp suggest the European PC market will grow 10 per cent in units this year but decline by 12 per cent in value, a clear indication of the move towards lower priced machines. All of which makes IBM's launch last month of a range of higher priced premium machines for "power" users something of a gamble.

Second, PCs will be portable. The industry has already created a new expression, "nomadic computing", to describe the latest in small, lightweight computers. The growth of the market for "notebook" PCs has been spectacular, but it is already diverging.

At the upper end are conventional notebook computers weighing only a kilogramme or so; these have been made possible by advances in disk drives as well as liquid crystal display technology. They use the same 32-bit chips as their desk-top counterparts and can do virtually everything the larger machines can do. With such power in a easy-to-carry package, it is hard to justify using desk-top machines.

There is, however, a need to link into office networks and manufacturers such as Compaq are catering for this with fully wired desktop docking stations into which a portable computer can be clipped. Zenith has reduced the docking pod to a simple backplate, a forerunner, perhaps, of a time when computing power and information will be accessed through a wall socket.

At the other end of the scale are tiny computers which compress much of the functionality *of a full scale computer into a* package which will fit into a pocket. Hewlett Packard has had success with a pocket computer which has Lotus 1-2-3, the most popular spreadsheet, already installed.

Psion, a UK-based manufacturer, is collaborating with Motorola, the world leader in cellular radio, to develop a handheld computer with an inbuilt radio modem.

The devices will be able to transmit data over public switched data networks, *enabling, for example, a sales* representative to maintain constant contact with head office.

Much of the excitement in nomadic computing, however, is focused on Apple's yet-to-be launched "Newton" personal digital assistant. The prototype is about 7 by 4 inches, a black plastic box with a screen but no keyboard. Communication with Newton is via an electronic stylus, used to write on the screen. The idea is that the user scrawls notes, records appointments or draws diagrams. *Newton automatically* orders and files the information. Mr John Scully, Apple chief executive believes the market for personal digital assistants will be enormous by the end of the century.

Somewhere between fully-fledged computer and pocket machine comes Olivetti's "Quaderno", an innovative cross between an electronic organiser and a notebook, complete with integral digital sound recording facility.

Third, PC marketing has *become more important than* technology. The PC did not evolve from the traditional computer industry, but is a product of the semiconductor business. Early PCs had hundreds of silicon chips but integration is steadily reducing the number. Eventually, a PC may well comprise a single chip in a plastic box.

It is hard for traditional manufacturers to add value to such a product. Intel, which dominates the market for the microprocessor chips used in IBM-compatible computers and Microsoft which makes the MS/DOS operating system used in most of these machines, have won the lion's share of the market's gross profit, with everybody else fighting for the rest.

This explains the diversity of low cost channels now used to distribute PCs. The list includes mail order, "off-the-page" (magazine) advertising, and business superstores.

Although the PC has established itself as the centre of the computing galaxy, it is by no means certain which technologies will prove to be shooting stars and which will vanish into black holes. At a recent industry conference in Vienna, Mr Scott McNealy, the combative chief executive of Sun Microsystems, one of the fastest growing workstation companies, picked his winners in processors, operating systems and distributed objects (a new programming technology).

Not surprisingly, Sun technology was among the winners in each category along with Intel and IBM in processors, IBM and Microsoft in operating systems and IBM, Apple and Microsoft in distributed objects. Apple's unique technology has a place of its own in Mr McNealy's firmament.

But he consigned to the dustbin of computing history IBM's 3090 mainframe and AS400 processors along with Digital Equipment's VAX and Mips reduced instruction set processor. He was equally dismissive of operating systems such as IBM's mainframe MVS and VM and newcomers such as OSF/1 and Steve Jobs' NextStep.

The industry is in such a state of ferment that the accuracy of Mr McNealy's predictions should be apparent within the next 12 months.

IN THIS SURVEY

☐ Networking: systems are moving from the central mainframe out to the users in their own departments
☐ Europe: fierce price competition and falling margins has forced the manufacturers to respond
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Editorial production
Sarah Murray

Powerful PCs have enabled the shift of networking away from the mainframe

Local networks grow in number

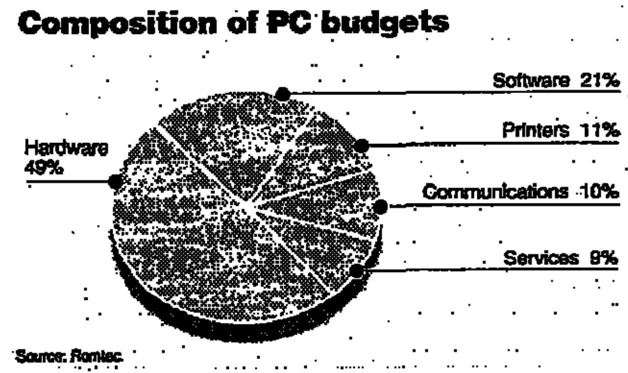
THE NUMBER of UK organisations with at least one local area network of personal computers has almost doubled in the past three years. At the same time the use of these networks has started to become more sophisticated, with systems normally run on a central mainframe computer being moved out to the users in their own departments.

But this growth in numbers and use is creating technical and human problems which threaten the full exploitation of networked PCs at the very time when advances in technology are opening new potential for users.

More than 85 per cent of organisations of all sizes in the UK now have at least one local area network, according to market research specialist Romtec. The average network has 46 computers connected, although 57 per cent have fewer than 20.

This does not mean, however, that most of PCs are networked: in 85 per cent of organisations, only 55 per cent of computers are connected. The users expect this to increase to 65 per cent by the end of 1993, representing a growth rate of 18 per cent.

Composition of PC budgets



Source: Romtec

This growth has been led by users rather than computing people and has taken off with the emergence of increasingly powerful PCs, according to Mr Graeme Allan, technical marketing manager at network market leader Novell.

"In the early days, users who had discovered PCs hit on the idea of networking for greater efficiency," Mr Allan says. "People were wandering around with a floppy disc looking for a spare printer or a piece of applications software: networking enabled them to share printers and files.

"Since then network technology has become more mature and PCs have become more powerful with the move to the Intel 386 processor and now 486, so people have started looking beyond office automation applications to business-critical systems.

"Meanwhile the computing department has recognised the growth of local networks and has got involved in this movement, under pressure from the users, and is even giving it some encouragement now."

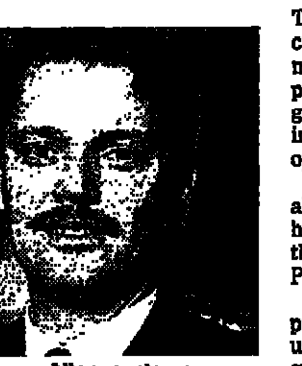
This last point is supported by the Romtec survey, which shows that in 80 per cent of organisations, local area networks are now specified centrally.

Romtec manager Mr Jon Whiteley says this reflects the fact that organisations now see that network growth has corporate implications.

However, the more advanced users are now at a crossroads. The original network applications software such as electronic mail packages are well established and are evolving into so-called groupware products which help people work together on documents or spreadsheets.

But moving traditional critical business systems from the central mainframe to a PC network "seems like a colossal leap in the dark", as Novell's Mr Allan puts it. These systems have generally been developed by an organisation's computing department or are based on mainframe software packages.

"The idea of downsizing from the mainframe is still mostly just talk," Mr Allan says. "The reality is that there is still a huge vested interest in the traditional approach among IT departments, big computer manufacturers and major consultancies. In addition there is a shortage of expertise to carry it out."



Graeme Allen: systems can go live more quickly

The skills shortage has been highlighted by several recent studies as one of the biggest obstacles to the full exploitation of networked computers.

A survey by Andersen Consulting on the related issue of client-server systems, in which applications are split across networks, concludes that "the skills shortage is the key issue". This was mentioned by over 90 per cent of organisations planning to move in this direction.

A study by the West London Training and Enterprise Council (TEC) reveals an urgent need to retrain traditional computing people to fill the skills gaps in the fields of networking, user support and the Unix operating system.

Unix runs on computers of all sizes and is thus seen as having an important role in the move from mainframes to PC networks.

"The definitions of analysts, programmers, operators and users are becoming less clear cut," says Mr Phil Blackburn, chief executive of the West London TEC.

"Traditional IT staff are being made redundant, yet companies seeking the new skills are already having recruitment problems.

"We have the classic scenario for another round of IT skills shortages once the recession lifts." The fact that network growth has been led by users rather than computing departments has created the related problem of network management.

The lack of central control was highlighted in a UK survey last year by network specialist 3Com and Benchmark Research. It showed that 82 per cent of companies used three or more data communication protocols, 59 per cent used two or more types of wiring and 31 per cent used two or more network designs.

A complementary study by The Networking Centre suggested that users were being especially affected by breakdowns in devices for connecting networks together.

"Recessionary pressures and skills shortages are restricting the levels of support staff and as a result local area network managers are fire-fighting problems every day," says Mr Stuart Morrice, managing director of Peapod Distribution, which recently launched a network management system.

'The growth of local area networks is limited by the availability of staff to support them'

Mr Morrice adds: "The growth of local area networks is more limited by the availability of staff to support them than by the suppliers' ability to deliver the products."

The staffing issue will be met by training or poaching, as every computing specialist shortage has been dealt with in the past.

Meanwhile products will become more reliable. Already PC manufacturers are building network facilities into their products, while the companies which supply them with microprocessors are putting network links in at chip level.

As the problems are resolved, the future looks bright for organisations which move business systems out to local networks.

Royal International, part of Royal Insurance, switched its accounting and electronic mail from a Hewlett-Packard minicomputer to a PC network. It moved from an accounting package costing £120,000 a year to one bought for around £5,000 and from an electronic mail package costing £200,000 to a £2,000 package bought off the shelf.

EBC Amro Asset Management has saved over £250,000 a year by moving from DEC Vax minicomputers to a company-wide PC network which now runs all its systems.

"With networked PCs, the hardware is cheaper, the software is cheaper, the maintenance is cheaper and as a result the financial risk is less," says Mr Allan at Novell. "In addition, systems can go live more quickly, which can mean extra benefits for the business."

John Kavanagh

Paul Taylor examines the European industry's response to intense competition

Allies needed in fight for survival

THE European personal computer industry remains in a state of turmoil with new products such as lightweight notebook portables stealing the limelight, old distribution channels under threat from direct sales and hardware prices continuing to tumble.

Figures from Dataquest, the market research group, underline the dynamics of the European PC marketplace. Spurred by growing sales of portables, overall PC unit shipments rose by 5 per cent in the 1992 first half but, because of fierce price competition and falling margins, the value of shipments fell by 8 per cent across Europe.

Hounded by the PC clonemakers who assemble commodity-priced components from Far Eastern suppliers and savaged by the successful direct sellers from both sides of the Atlantic – such as Dell and AST of the US and smaller UK-based companies such as Elonex and Opus Technology – the established PC manufacturers have had to respond.

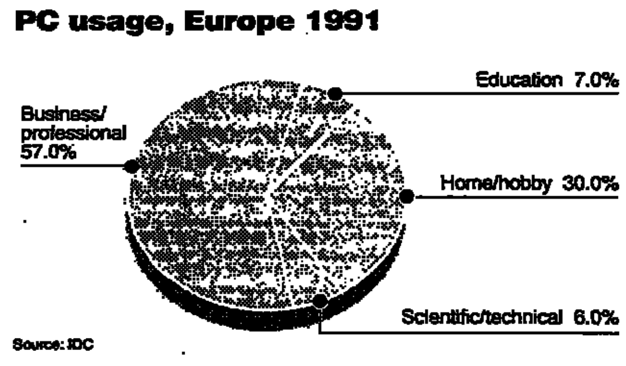
Even International Business Machines (IBM) and Compaq, which still head the European PC sales league table, were forced to slash prices and launch cut-price clones of their own earlier this year in an effort to preserve market shares.

Meanwhile, those established in the European computer industry – such as Olivetti, Bull and Siemens Nixdorf – have also been under intense price and product pressure, but know that PC's represent a critical source of revenues they cannot afford to lose.

In their battle to survive they have been forming new alliances aimed at securing access to the Risc (reduced instruction set computing) micro-processors expected to power future generations of desktop PCs as well as engineering and scientific workstations. In the process, Europe has become a battleground for the US computer giants trying to tie up markets for their new chip technologies.

Few, if any, of the European players can afford the heavy research and development costs needed to stay ahead in the chip development race, while US groups have the technology but need European partners to provide access to Europe's fragmented markets. In July, one of the final pieces of puzzle fell into place when Digital Equipment (DEC) of the US reached an agreement to acquire up to a 10 per cent stake in Olivetti of Italy at a cost of $370m, well over twice the market value.

PC usage, Europe 1991



Source: IDC

Groupe Bull of France began the process in 1989 by paying $500m to acquire Zenith Data Systems (ZDS) of the US. Zenith has since become central to Bull's recovery plan and its aggressive push into the desktop PC and fast-growing portable notebook market.

Bull is hoping ZDS will provide up to 40 per cent of overall revenues by 1994, compared with about 20 per cent of its $6bn revenues now. According to Dataquest, ZDS lifted Bull into sixth position in the European PC market in terms of value last year, behind IBM, Compaq, Apple, Olivetti and Commodore.

IBM, which already takes portables from Zenith, spent $100m earlier this year to take a small stake in Bull, a deal which will give the French group access to IBM's Power-RISC chip technology and give IBM another foothold in the European market.

Meanwhile Fujitsu of Japan acquired ICL of the UK two years ago and ICL in turn acquired Finland's Nokia Data.

Among Europe's big computer groups, only Siemens of Germany now lacks a big overseas IT partner. But the German group has more than enough problems stemming from the losses at Siemens-Nixdorf Informationssysteme (SNI), the computer systems company formed after it acquired the ailing Nixdorf last year.

Siemens admits it underestimated the difficulties of the merger and the perilous state of the European PC market. It recently announced plans to shed a further 6,500 jobs at SNI by September 1995, in addition to the 4,000 already lost as part of a rationalisation programe aimed at saving Dm600m annually and halving SNI's DM781m 1991 loss.

Although Olivetti remains Europe's biggest indiginous PC maker, it too has problems. Its share of the market has fallen from more than 11 per cent in 1987 to little more than 6 per cent last year.

Last year Olivetti lost $387m and although it has shed a quarter of its workforce in the past two years, further cuts may be neccesary if it is to return to profitability.

Although the Italian group has already launched the M700 work station built around the Mips Risc chip it makes no secret of the fact that the driving force behind the deal with DEC from its point of view was that it will provide it with access to DEC's Risc chip, the Alpha microprocessor for use in future products.

Staying in business in Europe these days is about more than having the right technology

DEC's Alpha chip, launched earlier this year, is the most advanced of its kind and the US group has set its sights on capturing a large slice of the European market for Risc-based machines. However, until the deal with Olivetti, DEC had no share of the fast-growing European Risc market, which is dominated by Sun Microsystems with almost a 60 per cent share.

But staying in business as a PC manufacturer in Europe these days is about more than having the right technology. As low-cost, high-volume clone makers monopolise the bottom end of the market, established manufacturers are having to differentiate their products, for example ICL with its emphasis on ergonomics and integrated networking software.

They are also selectively expanding the variety of the distribution channels they use, sometimes to include direct sales and PC superstores as well as the established dealer networks. And they are taking a broader view of the marketplace.

Even young companies such as Elonex, which has grown into the biggest direct sales computer supplier in the UK in just six years, is now focusing on wider horizons. The North London-based company has followed Dell, Opus and other direct sellers and set up sales offices in Paris and Brussels and production facilities in France. Ms Sue Davis, general manager of the Paris Elonex office, says it is "essential" for any company that wants to be taken seriously as a European PC supplier "to set up continental operations".

THE US

PCs battle for shelf space

US PERSONAL computer industry executives talk less about technology these days. Instead of boasting about the "speeds and feeds" of their latest products, they are more ready to discuss issues such as "brand merchandising" and "channel segmentation".

With the advent of the "commodity" PC market, in which there is little to differentiate one machine from another, the US PC industry has begun to take on many of the characteristics of consumer marketing.

Just as manufacturers of breakfast cereals tussle over supermarket shelf space, PC makers are now vying with one another for positions in expanding and increasingly diversified distribution channels.

Similarly, "packaging" or "bundling" PCs into products designed to appeal to specific segments of the PC market has become an increasingly important competitive tool, with several of the top PC makers recently announcing revamped products.

Sophisticated merchandising is widely seen as the path that the industry must take to escape the debilitating price wars of the past two years, which have seen prices plummet by as much as 70 per cent.

Today, 386SX-based desktop PC systems, complete with a colour monitor, hard and floppy disk drives, are widely available in the US for around $1,000. Similar systems sold for about $1,500 six months ago and cost as much as $3,500 in early 1991.

The price wars were led initially by "clone" manufacturers, but over the past nine months industry stalwarts, including International Business Machines (IBM), Compaq Computer and Apple Computer, have struck back with drastic price cuts of their own, plunging the industry into a frantic battle over market share.

With profit margins now razor thin, several smaller PC makers have given up the ghost. However, it is traditional computer dealers who have paid the highest price in the PC price wars. Their role in the industry is being usurped by new PC sellers.

Computer "superstores", offering discount prices and a wide selection of equipment, have sprung up throughout the US. By year end there will be about 200 of these stores, according to industry estimates.

This year, computer superstores are expected to account for 12.3 per cent of the $47bn-worth of PCs sold in the US, almost doubling their share of the market in 1991, according to Merrin Information Services, a California-based computer market research firm. By 1995 the researchers predict that computer superstores will sell over 23 per cent of PCs, with total US sales expected to reach $78bn.

Electronics retailers are also becoming a force in the PC market. Circuit City, one of the leading consumer electronics chains, touts PCs along with televisions, refrigerators and stereo equipment in its newspaper advertisements.

Office equipment stores are also rejoining the ranks of PC resellers, aiming to pick up sales to their small business customers. To reach home computer buyers, leading PC manufacturers are also placing their products in department stores.

"Direct fulfilment", via telephone orders, also represents a growing portion of the PC market. Following the lead of Dell Computer, which established itself as a serious contender in the PC market with telephone sales, most of the large US PC manufacturers have, or are preparing to, side-step the middle man and sell direct to end users.

IBM's struggle to set its PC business back on course demonstrate the radical changes that are under way in the US PC market. The computer giant has established the IBM Personal Computer company as an independent business unit with the freedom to react as swiftly as necessary to rapidly changing market demands.

'The days of "one size fits all" are long gone in the US personal computer market'

IBM PC is in the process of establishing four distinct "brands" of PCs. In the US market these will be:

- the Premium brand, comprising existing and new PS/2 models aimed at IBM's traditional stronghold in the corporate computer sector. They will be sold by IBM value added dealers, as well as by the company's own salesforce.
- IBM's soon to be announced "Value-Point" brand, a set of PC products aimed at the highly price sensitive segment of the PC market and sold through computer superstores and office equipment shops.
- IBM's PS/1 product line is being expanded and aimed more directly at consumers and small businesses. These will be sold through mass merchant retailers including department stores.
- The fourth "brand" group will be "mobile computers", aimed at the fast growing market for notebook and portable computers.

"Only a few years ago, we sold our PC products to what was largely a single group of buyers. They bought mainly through one of two channels – dealers and value added resellers.

"Today, there are multiple buyer types, or segments, all with distinct and different wants and needs, in terms of both product and distribution channel," explains Mr Sam Inman III, head of US PC marketing.

"The days of 'one size fits all' are long gone," in the US PC market, Mr Inman says. "To make it today, we must have products targeted to different types of buyers who buy through sales channels like superstores, for example, that didn't even exist a few years ago."

IBM is not alone in recognising the increasing segmentation of the US PC market. Compaq Computer recently launched a new product line called Prolinea, aimed at price sensitive buyers, and Dell has split its product range into three groups aimed at home buyers, small business buyers and corporate customers.

Similarly, Apple Computer recently introduced three new models of its Macintosh PCs, called Performa models, aimed at home computer and small business users. The Performa products will be sold through department stores, office suppliers and consumer electronics outlets.

"We need to be where the customers are," said Mr Robert Puette, president of Apple USA, the company's domestic sales and marketing division.

"Our goal with Performa is to reach new users and complement Apple's current product and distribution strategy in the business arena," added Mr Keith Fox, Apple's vice-president of consumer markets.

"Experienced computer users, business users and those who require complex solutions will continue to rely on Apple's authorised reseller network for the largest selection of Macintosh solutions for a range of business needs," said Mr Fox.

Nonetheless, PC makers acknowledge that there is bound to be some overlap among distribution channels. A small business proprietor, for example, might choose to visit a computer superstore or browse through the shelves of a consumer-oriented electronics retailer. Corporate buyers are increasingly ordering PCs from superstores where prices are lower than those offered by value added resellers.

One danger of the multi-brand, multi-channel approach is that customers will become confused. Finding the best value for money when shopping for a PC is an ever more complex challenge given the bewildering array of features and performance criteria and now the different names attached to similar models from the same manufacturers.

There is no doubt, however, that by expanding their distribution channels and lowering prices US PC makers have created strong demand. In spite of rapidly declining prices, US PC sales revenues are expected to rise slightly this year, reflecting a substantial increase in unit shipments.

Louise Kehoe

PERSONAL COMPUTERS AND SOFTWARE 3

WORKSTATIONS

Figures point to new pressures

THE workstations is still one of the big-selling product families of the computer industry, generating good revenues for the suppliers in spite of the recession. But competition in the workstation marketplace is becoming as fierce as that of the the PC.

Sun Microsystems, generally accepted as the market leader, has seen its annual revenues grow from \$3.2bn in 1991 to \$3.6bn in the financial year that ended in June, while watching profits dip from \$190.3m last year to \$173.2m. At the same time, the number of units shipped reached record levels. – 56,000 during the company's last quarter.

These figures points to increasing price competition in the workstation marketplace, although Sun's President and CEO, Mr Scott McNealy, stresses instead a high spend on research and development as the cause of the profit decline.

The pressure on pricing and market development and growth is definitely on, however.

In the US, IBM has started a mail order service for its RS/6000 product family. In practice, this approach is aimed mainly at selling add-on products such as expansion memory and extra disk capacity to existing users. However, although the company does not expect many customers to buy complete systems "off the page", the fact that this is possible demonstrates the way the workstation market has changed over the past year.

Hewlett Packard is also expanding its routes to market. It is adopting the technique already perfected by Sun and Mips Computers of licencing third party manufacturers. In HP's case, its latest agreement is with Korean-based Samsung, which is to start by selling a re-badged version of HP's Model 700 workstation. Samsung's semiconductor division is, however, already working on producing its own version of the system's Risc processor, and workstations of its own design are bound to follow.

Unix-based workstations are finding their level in the overall spectrum of computing. They are still the best solution to a number of different tasks, especially those such as computer-aided design where high resolution graphics and the ability to run a number of different applications on a desktop system are important.

In most situations where these capabilities are required there is also a need to network several workstations together. To do this, the same hardware architectures of the leading workstations are now important in the role of network file servers and network management. Here, the capabilities of Unix to run multi-tasked applications within a virtual memory environment – while fully exploiting the power of the processors – is proving an important lever for many users, particularly in the financial community.

One of the biggest developments in the workstation marketplace, however, is in the user interface to the system. The Unix operating system used in workstations is, to the uninitiated, complex to use.

Over the past year, however, this complexity has largely been eradicated by the widespread adoption of Graphical User Interfaces (GUIs) as the standard working environment. This means that anyone with some experience of using either an Apple Macintosh or a PC-compatible with Windows 3, is now equally experienced at using a Unix workstation.

There are two main contenders for the title of "standard" GUI for this market. One, Open Look, has Sun Microsystems as its prime supporter. The company ships this GUI with every workstation it sells, making it numerically the dominant system. The Open Look GUI is a Sun development, and is promoted by Unix International (UI), the Unix industry grouping of which Sun is an important member.

Open Look is, however, only prevalent on Sun systems and on those from companies that use the Sun-developed Sparc Risc processor and associated operating systems, SunOS or Solaris. The GUI that is proving the most popular with manufacturers is Motif, promoted by the rival industry grouping to UI, the Open Software Foundation (OSF).

The most popular implementation of the OSF-Motif style guide comes from Cambridge-based IXI. Its X.Desktop system has been licensed by most workstation suppliers, including IBM, Bull, NCR, Data General, ICL, Unisys and Olivetti.

Not only is there increasing price competition in the workstation market for the dominant suppliers, Sun Microsystems, IBM and Hewlett-Packard, there is also growing competition on the technology front. Digital Equipment, in particular, has started to ship the first workstations built around its new Alpha Chip processor which, at an operating speed of 200 Million Instructions Per Second (Mips), is the fastest processor available in this market.

The performance of the Intel-based PC is also rising sharply. The company is now scheduled to introduce its next processor, known as the P5, early in the new year and this will produce PCs capable of running at up to 100 Mips. This will be fast enough to cope with many of the applications for which a workstation is currently the only practical solution.

Also needed, is an operating system that can exploit such potential power. Microsoft's combination for Intel-based PCs, MS-DOS and Windows, does not offer sufficient functionality, particularly in multitasking, and users have the choice of either OS/2 from IBM, or one of the PC-based implementations of Unix.

Microsoft hopes to rectify this next year when "industry-strength" versions of its new operating system, NT, are launched.

The combination of P5-based PCs and the NT operating system could at last see the PC challenging workstations in terms of functionality and performance. If this happens, current workstation suppliers could be in for a difficult time.

Martin Banks

The handheld market is characterised by a confusion of names

Distinctions begin to blur

CLASSIFICATION of handheld computers seems almost as difficult as that of Darwin's beetles. Some differentiate between handhelds and portables, on the grounds that portables may be held by the hand but genuine handhelds are held in the hand. Certainly, as prices for these machines range from £60 to £6,000, there must be several different species involved.

Portable computers started to appear in the early 1980s and soon branched into two – palmtops, consumer electronics products such as sophisticated pocket calculators and notebooks, business equipment for the travelling manager.

But this distinction is shaky and these two lines could soon converge again.

Palmtops include, or overlap with, personal organisers and personal digital assistants. Notebooks can be divided by size into laptops, true notebooks and subnotebooks.

The confusion of names shows how young the market is. Even in the US market research on the subject is still thin and in Europe even thinner.

The market for portables is growing much faster than that for desktop computers, even though the price of the miniaturised systems is higher.

Mr Bruce Stephen, an analyst at IDC, says the palmtop-handheld sector more than doubled in the US between 1990 and 1992 to 670,000 units, or \$242m of shipments, at an average price of \$360.

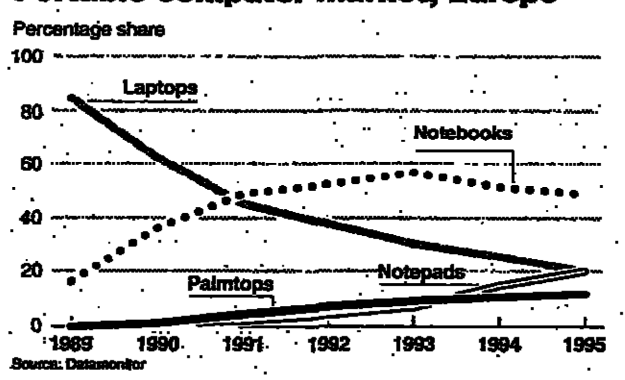
In the US, the Japanese company Sharp is the dominant supplier of palmtops. In the UK it claims to have half of the market for organisers priced between £60 and £260. It puts the current market at 350,000 units and forecasts growth to 450,000 in the next two years.

The UK company Psion is a big vendor in Britain but its small size means it will struggle to maintain its position in the global market.

The recent entry of Hewlett-Packard into this sector with its HP95LX, priced at around £350 and compatible with the industry standard PC operating system DOS, has created a stir and is expected to lead to a spate of clones from the Pacific countries.

Apple has put its reputation at stake with a big publicity campaign for its forthcoming Newton machine, to be manufactured by Sharp and due to be introduced in the US early next year at a price probably lower than £400.

Portable computer market, Europe



Source: Datamonitor

It will run on the British-designed Advanced Risc Machine (Arm) 610 chip. Described as a notepad rather than a notebook, it will not have a keyboard or a mouse – input will be by a pen. It will provide one of the first tests for the concept of pen-based computing, which is seen as the future medium for many form-filling applications.

Apple's claims that the machine will learn to recognise the owner's handwriting in just an hour and that future versions will also be able to recognise speech have met some scepticism in the industry. It risks a strong adverse reaction if it fails to deliver what has been promised.

Apple will be challenged by an alliance of Tandy and Casio, Olivetti's Quaderno, and no doubt many others. But some leading manufacturers believe the technology is still not mature and have decided to wait for it to develop further before entering the field.

The palmtops sector is one of the few in the industry where prices are rising, as more functions are added. But given their low price they should be selling better, says Mr Stephen of IDC.

"They are too complex and have too many buttons. Many people have been put theirs away," he says.

Palmtops remain unstandardised and the question of what standards are needed if any is being debated. Sharp and Apple have both adopted proprietary designs.

Ms Rosemary Eccles, Sharp's UK product manager, argues that users want simplicity above all, so there is no likelihood that personal organisers will evolve towards more complex PC-based standards.

However, other vendors think that users will prefer systems which are compatible with desktop PC standards including DOS.

The notebook sector – larger machines, but still able to be carried in a briefcase – is growing even faster. It trebled in worldwide sales to 3.3m units in 1990-92 and in the UK sales shot up to around 90,000 last year. Some experts are forecasting 300,000 sold in the UK by 1996.

The increase is being driven by a rapid fall in prices, in line with those of desktop personal computers. Many are now in the £1,000- £1,500 bracket.

Notebooks may weigh around 6lb, their little cousins the subnotebooks only half that. They usually conform to desktop PC standards, running on Intel 386 or 486 32-bit chips, with a DOS operating system, Windows user interface, 2-4 megabytes of RAM, 40-120 megabytes of hard disk and VGA colour screens.

Palmtops and notebooks are creating a new market of those who have not used PCs

Mr Mike Lunch, UK director of PCs for Toshiba, which has around 30 per cent of the world market for notebooks and larger handhelds, says they are now starting to replace desktop PCs for many functions and sales will overtake those of desktop PCs in the mid-1990s.

The storage medium for these machines remains an issue. Reducing the power needed for memory is important because their batteries tend to run out after a few hours.

Intel claims that its new "flash" solid state memory erasable chips will use less power and be cheaper, faster and lighter than rotating hard disk drives.

It says flash memory will replace hard disks in handheld computers in the next couple of years. Apple's Newton will use flash memory on cards the size of bank credit cards. But some experts dispute Intel's claims and argue that very small hard drives will prove more successful.

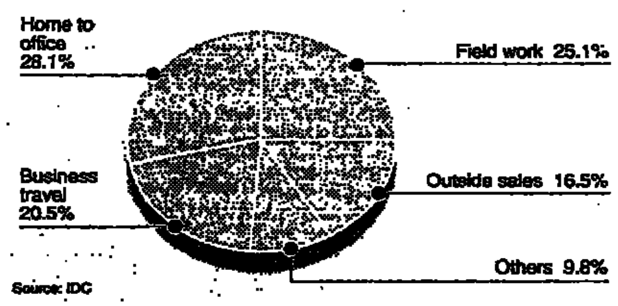
Wireless communications is another area of controversy. The popularity of these new devices will depend heavily on the ability to send faxes, exchange electronic mail messages, receive news by satellite and send data back to head office. Until suitable communications standards emerge it remains uncertain how effective these functions will be.

Palmtops and notebooks are to a great extent creating a new market of users who have not had PCs before, such as sales people, financial services representatives and the general public.

As palmtops become more expensive and notebooks become cheaper, the two subsectors may before long come together again. That development would probably bring even tougher competition in the market.

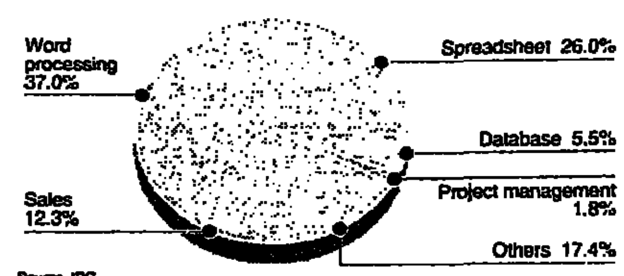
George Black

Where are portables used?



Source: IDC

Primary usage of portable PCs



Source: IDC

PERSONAL COMPUTERS AND SOFTWARE 4

Steven Sonsino finds the debate over the viability of the pen computer market is continuing

Products taking time to materialise

IMAGINE a nightnurse coming to the last patient on his rounds. He checks his notes for the correct prescription and dose, administers the drug and then signs a chit for the store keeper in the morning.

This chit, however, is not a scrap of paper. It is a blank form held on disc on the nurse's notebook computer. He fills it in, by ticking boxes on the liquid crystal display (LCD) screen, and then he signs it – all with a cordless electronic stylus.

The system recognises the electronic signature, prompts the nurse to fill in all the necessary details and files the chit away in its memory.

The system also recognises the way in which the nurse signs his name – how much pressure he uses on the screen and how fast he moves the stylus – as an additional security check.

Back in the office, the off-duty nurse docks his notebook computer with the office PC, which automatically transmits the night's data to the stores computer over a mile away. This, in turn, updates the weekly purchase requisition forms, for the pharmaceuticals suppliers, as well as the patient records system, for the hospital consultants. Then it prepares the morning's rounds lists, for the day nurses.

Much of the technology for achieving this high-tech healthcare exists today, including the hardware and software behind the pen computer system at its heart. The LCD screens are those used in laptops and portable PCs. The power supplies and hard disc memory drives – up to 130Mbyte in one pen computer system – are also the same. The only difference is the lack of the keyboard, which has lead to the machines being christened "sans clavier" in France: systems without keyboards.

This name is perhaps more appropriate than the US-inspired "pen computers", as the tyranny of the keyboard is truly at an end, says Mr Carl Billson, general manager of Tangent Associates. "The thing that distinguishes these machines from existing products is their ease of use," he says.

"You've generally got a larger screen and you're not forcing people to enter data in a specific sequential order. It's intuitive."

Tangent, a software house and pen computer specialist, one of only a handful in the pen computing arena, has been working on techniques for collecting physical numerical data for four years, ever since it evolved as an industrial consultancy from the Loughborough University of Technology.

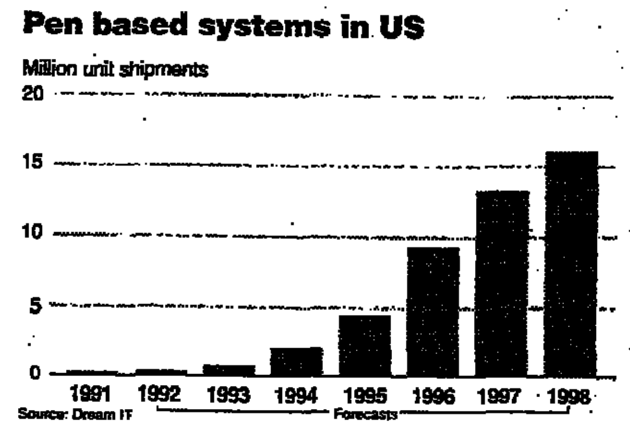
But, like others in the data logging and collection sphere, Tangent sees its work with rugged Husky portables and with Psion Organisers as little more than history now.

Its work on the Freestyle pen computing projects, the exploratory development of industrial pen computing, sponsored in part by the Department of Trade and Industry, points the way forward.

Prototype of Apple's first PDA using the Newton technology

Pen based systems in US

Million unit shipments



"The total budget for Freestyle 2 is £0.5m. About a third will come from the DTI and the rest from us and our business partners in industry, says Mr Billson."

Tangent's main target customers in industry include the public utilities and local authorities, whose engineers and auditors may need to update maps of street lighting and underground sewage channels, for instance. The company is currently presenting pen computing to a range of potential clients.

But customers for the pen computer concept will also include business men and women, more familiar perhaps with the Filofax or the laptop computer, but hungry for the latest executive toy.

In spite of much hype from vendors, it has taken time for products to materialise. The palm-sized GridPad-SL from Victor Technologies was for nine months virtually the only pen-based system on the market. Now there are more powerful 386-based machines available, Samsung's Pen Master 386L, for instance.

'The whole pen market has been bedevilled by hype and over-hype. Excessive predictions were made on sales and these haven't borne fruit'

Also available is a 640x200 screen system from Poqet, the Fujitsu subsidiary, and the low resolution EH10 from ATS in Manchester. This rugged industrial machine uses a 320x200 resolution touch screen from Hitachi.

Another pen computer manufacturer in the north of England is Eden, which has licensed its 386-based VPi-386 machine to Trigem among others. The first 386-based pen system, however, was System 3125 from NCR, supporting 4Mbyte of RAM and a 20Mbyte hard disc.

Reports from software developers which have signed non-disclosure agreements with manufacturers suggest that there are other developments on the way. Among developments worth watching are a 286-based system with digital voice recording from one US company and a Risc-based machine from EO Europe of Cambridge.

IBM is also interested in the technology, so watch for offerings from that camp, too, and from Apple, whose Newton system is due to be launched in Spring 1993 at less than $1,000. What Apple envisages is computers from wristwatch to whiteboard-size, so it needs consumer electronics know-how to crack those markets.

With this in mind, it becomes clear why Apple has licensed Newton technology to both Sharp Electronics and Toshiba. It has also approached other Japanese consumer electronics companies looking for buyers. Expect Sony to be on the shortlist, for its strengths in screen technology and Walkman marketing.

With a band of hardware vendors of this calibre offering one-off systems prices ranging from £1,100 to £2,500 in the UK, buyers can soon expect power performance enhancements, increasing disc size and rapid improvements in screen technology. Colour screens and higher resolution should also become widely available.

Software standards, too, will remain flexible for a while. Outside the Newton environment two contenders exist for a standard operating system: Microsoft's Windows for Pen Computing, with support from more than 120 software vendors including Borland and Corel, and PenPoint from GO Corporation.

But the debate is not simple: IBM is working on a version of the OS/2 operating system for pen environ ments.

So the pen market is going to be vendor-driven for some time and it is here that the biggest questions arise. Market research figures, for instance, and vendor estimates of sales vary enormously, but they tend to be high. One report suggests that 4m pen computers will have shipped by 1995. Compare this with GridPad's sales in 1991-92, which were estimated at around 40,000 units by Dream IT, a US market research firm.

"The whole pen market has been bedevilled by hype and over-hype," says Mr Billson of Tangent. "Excessive predictions were made on sales and these haven't borne fruit."

While Mr Billson attributes this in part to a lack of choice for developers and buyers, there are other issues, he says. "Apple, for example, has announced Newton. They've announced release dates and so on, but who knows whether they're doing that to create an element of FUD – fear, uncertainty and doubt – in the market." Fear in the market may restrain buyers and developers from committing heavily to other products, he says.

Apple, however, stands by its position and the predictions for the market that Mr John Sculley made earlier this year. The market will be worth $3,000bnby the turn of the century, he said.

"This might seem a surprise," says Mr Ajaz Ahmed for Apple UK, "but the figures are based on Apple surveys which show that computers and communications products are going to merge. And the merger between them is going to be the Personal Digital Assistant, or Newton."

And the reasons Apple announced Newton in May of this year? "Simply to help developers generate products for the environment and to reduce the volume of speculation about what we were doing," he says.

So the debate about the viability of the market will continue. What is clear, though, is that the technology for pen computing does exist. "It's not vapour-ware," says Apple's Mr Ahmed. The only hurdle, therefore, seems to be the application itself and whether sceptical buyers see a real use for these systems in the workplace. Don't write off the keyboard yet.

Survival now depends on big sales volumes and new software and services, writes **Alan Cane**

Declining prices create havoc for industry

IN 1992 the computer industry's 'Big Myth' - that powerful computers are technical marvels which demand high prices - was finally laid to rest.

A year ago, the cheapest notebook computer based on the best-selling Intel 80/386 microprocessor chip and manufactured by Compaq, the market leader in high performance personal computers, cost £2,775 in the UK. Today, Compaq's cheapest 80/386 based notebook, the Contura 3/20, costs only £995, one of the most dramatic examples of the way prices have collapsed over the past few years.

PC prices have been falling by an average of between 25 and 40 per cent a year and there is no reason to suppose they have reached the bottom.

In few industries have high priced, high technology products become commodity items in such a short time. It is causing serious problems for established manufacturers and creating havoc in the supplier channels, where margins have been shaved unbearably thin.

Computer dealers can survive now only if they sell hardware in large volumes or if they can add extra value in the form of software and services.

The recession apart, prices have fallen because of declining component prices which have lowered entry barriers to the industry and helped to stimulate intense competition.

A year ago, for example, a 20-megahertz Intel 386SX microprocessor, the workhorse of the industry, cost $88 in 1,000-part lots; now the same chip costs only $57.50 in the same quantity. Pressure on microprocessor pricing is helped by competition from a number of semiconductor manufacturers, notably AMD and Cyrix, which are developing chips functionally identical to Intel's industry standard devices. Some suppliers are also prepared to accept much smaller profit margins than is customary in the computer industry.

Some suppliers are prepared to accept smaller profit margins than is customary

Manufacturers traditionally expect a 60 per cent gross profit margin on mainframes, 40 per cent on mid-range systems and 20 per cent on PCs. Automated manufacturing techniques and more economic channels of distribution are allowing some manufacturers to work on much tighter margins.

Many are based in Asia and constitute the biggest chunk of a new market segment - the so called "no name" segment, which according to the consultancy InfoCorp Europe may now be greater than 30 per cent of the total. Growth in this segment of the market is greater than elsewhere in the PC business which is why no manufacturer can afford to ignore it. Across Europe it is expanding at 45 per cent a year as opposed to 21 per cent for the whole PC market.

Dell Computer, a clone maker based in the US broke the mould by pioneering direct sales in the West through mail order. Compaq was one of the first victims. A year ago it reported its first ever loss after taking a $135m restructuring charge to pay for 1700 redundancies.

Under new chief executive Mr Eckhard Pfeiffer, the company changed tack decisively. It cut prices, sought manufacturing economies and announced a new range of low cost products. Compaq's challenge was to maintain its quality image with products cheap enough to compete in the lower regions of the market.

It seems to be succeeding. In July it reported a 43 per cent jump in second quarter income, the first year to year improvement in Compaq's earnings since the beginning of 1991.

It also warned that it was suffering from a parts shortage because of the popularity of its new machines. In some cases it has lost orders as a result. Warned there would be a two month wait for Compaq Prolinea computers, a customer bought extensive numbers of a "no-name" brand.

Dell, meanwhile, is prospering. Its quarterly results, published last month, show a year on year growth of 129 per cent and net profits up 77 per cent. It has $122m in cash and operating costs of only 16 per cent of sales.

International Business Machines (IBM), the world leader in PCs, is taking a diversity of approaches. In Europe, for example, it has established a wholly owned, subsidiary, Individual Computer Products International (ICPI) to take on the no-name manufacturers directly.

The company will source products on the open market, selling them through a variety of channels - dealers, retailers and direct sales. The name of the products - Ambra - gives no clue to their parentage. IBM is clearly trying to carve out a share of the low-end market for itself without compromising its credibility as a quality manufacturer.

Earlier this month, the company announced it was splitting off its PC operations as a separate business within the corporation. The new unit, the IBM Personal Computer Company, will have responsibility for developing, manufacturing, distributing and marketing the company's entire range of PCs.

The idea is to give the unit more freedom in setting budgets, sourcing components and recruiting staff.

The first products from the new division, three models in IBM's entry level PS/1 range, were launched earlier this month.

The rush for the lower ground has even enveloped Apple, which has ploughed its own furrow through the computer industry since its early days. The company, which traditionally charged premium prices for its easy-to-use Macintosh technology, introduced cheaper versions last year and earlier this month introduced a new line of low-cost machines that it will sell through mass-market retailers.

Price reductions and new low cost models continue to come thick and fast

Models in the new range, known as Performa, will sell for between $1,250 and $2,900 in the US. It seems likely, however, that selling the new range through retailers will cause conflict with Apple's traditional dealers who will have to compete against the new machines with more expensive Macintosh products.

Price reductions and new low cost models continue to come thick and fast. Digital Equipment, hitherto an also ran in the PC stakes, has launched a 386SX computer with colour screen for £850.

How much further can prices decline? Few would give hostages to fortune by hazarding a guess in such a volatile industry, but at least 20 per cent seems likely next year. The principal effect of the past year, according to InfoCorp, however, is to narrow the average system, price differential between a first tier vendor - Compaq or IBM, say, and the no-name third tier suppliers from £600 to £100.

Displaying colour images, animation, sound and speech, multi-media is ideal for presentations

MULTI-MEDIA

Clicking on Bogart

MULTI-MEDIA has been a buzzword in the personal computer industry for almost five years, yet few mainstream PC applications have been produced using this innovative technology – that is, until now.

There are good reasons for this – the computer hardware which provided the power and function necessary to adequately run multi-media applications (combining speech, music, graphics, animation and still pictures) was expensive and multi-media development standards not firmly fixed.

But now that PCs are capable of producing digital sound – and use CD-ROMs (Compact Disc – Read Only Memory) to read data and display high-resolution colour images, animation, sound and speech – multi-media systems are starting to become lower-cost commodities.

In fact, manufacturers in the US have made moves in recent weeks to make multi-media computer hardware even less expensive. Zenith Data Systems and Tandy Computer have both announced plans to produce "multi-media players" based around Tandy's new Video Information System standard – which allows multi-media software based on Microsoft's Windows system to be played through standard US television sets.

Meanwhile Apple Computer, one of the pioneers of the multi-media market, has also announced new systems in the US that also make it cheaper to use multi-media technology with its Apple Macintosh range. There are probably more multi-media applications for the Macintosh than any other type of PC, which has been capable of using CD-ROM-based software for more than four.

The CD-ROM systems at the heart of most multi-media designs are based on the same technology as ordinary home CD audio players – and can actually play audio CDs as well as those containing computer information.

But as CD-ROM compact discs can hold about 450 times as much information as the average computer floppy disk – and cost little to produce – they are becoming a popular add-on to PCs. Having this much space also means that far less printed material clutters up the desk.

Using, for example, the multi-media edition of Microsoft's integrated Works for Windows software, no longer means scrambling around to find one of several bulky manuals – and then spending another 10 minutes wishing that there was somebody around to actually demonstrate how to solve the problem.

Multi-media technology, allows users to lock up their program manuals in a vault and means they should never have to look at them again. For almost any function, the multi-media edition of products such as this have an animated sequence, a tutorial section or a narrated 'short film' that will take the user through any problems, step by step.

In all, there are 42 lessons in the Microsoft Works on-line tutorial – each of which has associated overviews comprising multi-media movies and animation. It is typical of the kind of work that is being done in the multi-media sphere to make computer software easier to use.

Another method being employed is to imitate real-world technology for controlling software. In most multi-media applications, for example, these are standard VCR-like controls – so that users can fast forward, rewind, pause and playback any audio or video sequences they want to see again. This is all part of showing people how to use PCs in a non-threatening way.

The list of requirements to run an average multi-media application on an IBM-compatible PC is somewhat longer than the average. MS-DOS version 3.1 is needed or, later, Microsoft's CD-ROM extensions version 2.2 or later, a PC with a 16Mhz 386SX processor (although some sound and animation sequences will run on the kinds of less powerful 10Mhz 80286-based multi-media machines sold by some manufacturers) and Version 3.1 of Microsoft Windows (although most are still able to operate using Windows 3.0 with Multi-media Extensions version 1).

In addition to all this, 2Mb or memory of system memory is needed (4Mb is recommended), at least 30Mb of hard disk space, a CD-ROM with an access time of less than one second and a 150K per second data transfer rate. Needless to say, a VGA display adaptor is a requirement – as is an audio board with speakers or headphones.

But once equipped with all this, the list of possible multi-media applications seems endless.

It already includes animated "talking books" for children, encyclopedias, dictionaries, an atlas (which not only shows maps and flags of the world, but also plays the anthems of most countries), "biographies" of famous people with on-screen examples of their work and super-realistic computer games.

Microsoft chairman Mr Bill Gates offers an interesting insight into the future of this technology. At a recent briefing to US financial analysts', he talked about a multi-media product he hopes will help move Microsoft to the centre stage of the consumer electronics market.

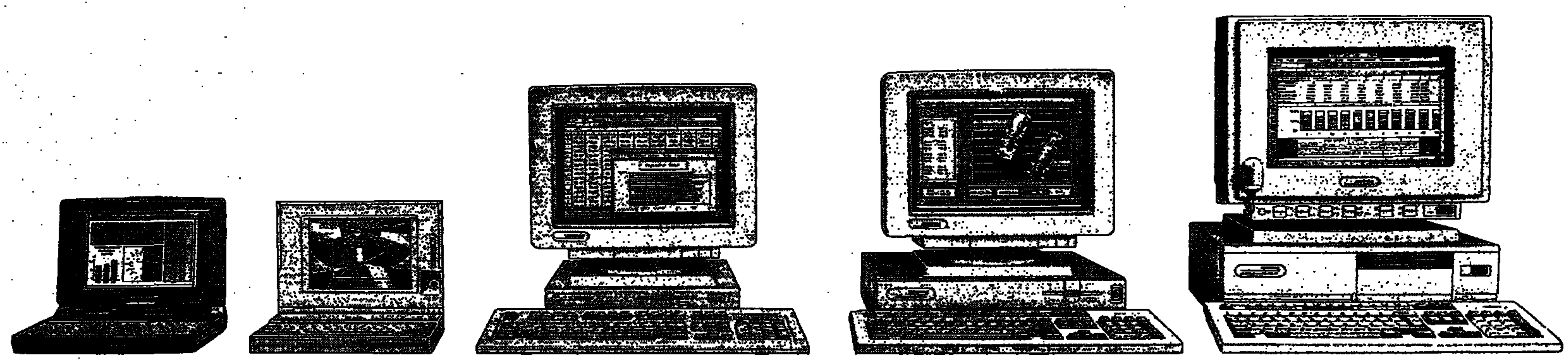
It is a CD-based film guide for cinema buffs. Entitled "Cinemania", it is a guide to anything and everything you might want to know about movies. It includes a powerful database "search engine" with text information on more than 19,000 films – as well as lots of digitised pictures and sound clips from films.

If, for example, someone wanted to know all the films that Humphrey Bogart starred in during the Second World War that won an Academy award, he or she would just enter that criteria on a form-screen that looks like a VCR remote controller.

Cinemania then comes back with the answer "Casablanca" and offers the user a huge variety of other information. It is possible to see a review of the film, an article about the making of it and obtain information on any of the leading actors, the director or the studio which produced it.

By clicking on Bogart's name, for example, the user is offered a complete biography of him, featuring pictures, sound samples of him taken from various films and lists of all the films he has ever starred in. And that, as the man says, could be the beginning of a beautiful friendship.

Geof Wheelwright



PERSONAL COMPUTERS AND SOFTWARE 6

HAVING provided PC users with a 30-fold increase in performance coupled to a near four-fold drop in system price, there can be no doubting the significance of the semiconductor industry, and in particular its most important product, the microprocessor.

Much of this development also came without the usual pressures of direct and frantic competition. For the past 10 years, and more in the PC market, there have been two main microprocessor "camps" – Intel and Motorola – and while there has been technological rivalry between the two, they rarely competed for precisely the same markets. Intel had the IBM-compatible PC market to itself, while Motorola supplied Apple and many of the early small Unix systems.

Later came the Reduced Instruction Set Computer (Risc) processors from the likes of Sun Microsystems, Mips Computers, Hewlett Packard, Motorola and IBM. As they all are pitched at the same basic market – Unix systems of all types – this has been an area of greater competition and in-fighting between the manufacturers.

In the PC market, however, the past couple of years has seen competition increase radically, particularly in Intel's prime marketplace of the IBM-compatible PC. Until that time,

Martin Banks finds increased competition may lead to superior processors but reduce suppliers

Fighting intensifies in the chip war

Western European Unit Shipments (1,000s): All sectors by processor type

	1990	1991	1992	1993	1994	1995	1996	1997
8086/88	922	357	159	91	32	4	0	0
80286	2,484	1,799	996	591	253	82	5	0
80386SX	1,360	2,937	3,845	3,808	3,132	2,436	1,750	1,120
80386DX	856	1,015	965	875	621	372	207	121
80486SX	0	61	560	1,623	2,891	3,743	3,912	3,599
80486DX	53	239	615	1,125	1,879	2,403	2,790	2,985
80586	0	0	0	21	159	574	1,372	2,562
Intel total	5,675	6,408	7,140	8,134	8,967	9,614	10,036	10,387
Motorola 680	1,302	1,393	1,425	1,390	1,298	1,220	1,158	1,100
Risc & Prop	157	192	244	315	422	545	667	784
8-Bit	827	834	433	199	75	33	10	1
Total	7,961	8,827	9,242	10,038	10,760	11,412	11,871	12,272

Intel had managed to defend its technological lead by judicious use of legal protection and licencing deals for its x86 processor family.

The company would licence the low-end, high-volume products to other manufacturers, while maintaining total control over the high-end products. This was until one of the licensees, Advanced Micro Devices (AMD) claimed breech of an on-going licence agreement, the claimed breech preventing AMD having any rights to Intel's 386 processor.

The judgement was sufficiently complex to allow both companies to claim victory, but the clear result in the marketplace was to allow AMD to produce its own version of the 386. The effect was to break Intel's stranglehold on this market, which at the time was the dominant part of Intel's processor business.

It also opened the floodgates for other manufacturers to move in and offer PC producers other alternatives to Intel for supplies of 386 processors.

This is an important market, for the 32-bit, Complex Instruction Set Computer (Cisc) 386 processor is, in its three prime versions, now at the heart of nearly all entry-level PCs, systems which sell worldwide by the million. It is the dominant processor type in a market where Intel alone claims to have shipped 20m processors of all types past year, holding a 58 per cent share of the $5.2bn microprocessor business. With profits last year of $818.6m, the stakes both for Intel and its rivals are high.

The risks are also high. One of Intel's competitors has been a US company, Chips and Technologies, which after a year of producing its own versions of the 386 processor has decided to all but pull out of the business. It will continue to market one version, modelled on the original Intel part (known as the 386DX), but has withdrawn all bar its PC/CHIP, a single-chip implementation of a complete low-performance PC, which is aimed at the notebook and palmtop PC producers.

Intel still faces strong competition, however. AMD chief executive, Mr Jerry Sanders, is claiming some 30 per cent of the 386 market, and has products in all three versions of the processor; these the standard 386DX, the cheaper 386SX with reduced memory addressing capabilities and the 386SL, which uses an internal design to effectively allow the processor to stop when not in use. Called a "static" design, it reduces power consumption, which is advantageous in notebook and palmtop PCs.

Together with the other main competitors, Cyrix and IBM, AMD is pushing 386 processor technology aggressively, producing devices that are faster and cheaper than Intel's. The latter, having already introduced the faster, more powerful 486DX as the next processor in the family line, has responded to the competition in a number of ways.

It started with the launched of the 486SX version, seen by some observers as a somewhat crude marketing gambit. This is essentially a 486DX with the on-board maths co-processor disabled. The additional maths co-processor is essentially a 486DX designed not to work unless the 486SX is already present.

It has subsequently launched the 486DX2, which runs internally at twice the speed of the original device, and the Overdrive, essentially a "retail" version of the DX2 chip which can be fitted into the co-processor socket of existing 486-based PCs.

This latter device has been heavily criticised by many PC makers, who suggest that with it Intel is competing with its own customers – them. The company is certainly starting to court the end user directly by trying to establish the Intel brand name with them. It is also producing complete PC motherboards and other subsystems. It contends, however, that it will not compete directly by making its own PCs.

Intel has also delayed the introduction of its next generation processor, called the P5. This is at least in part to give more time for the DX2 and Overdrive products to flourish, but when it finally appears next year, it will bring Intel into direct competition with the makers of high performance Risc processors.

The winners will be the processors which run operating systems that users decide are best

Its 100 Mips will, for example, equal or beat the performance of devices such as the SuperSPARC chipset at the heart of Sun Microsystems' workstations, Mips Computers R4000 device which was to be at the heart of the now defunct ACE workstation collaboration (the coming of the P5 was the main reason companies such as Compaq pulled out of the Alliance), and the PowerOpen processor due to roll out of the IBM/Apple/Motorola Alliance by the end of this year.

The comparability in brute performance expected between the coming P5 and the Risc chips will inevitably weaken the dividing line between PCs and workstations, quite possibly creating a situation where the winners will be those processors which run the operating systems which users decide are best, rather than the best "technical" design.

The one outsider in this at present is Digital Equipment, which has already announced a Risc processor, called Alpha. This has a claimed performance, 200 Mips, that is far beyond anything else available. Digital aims to not only use it in its own workstations, but also offer the processor on the merchant market as direct competition to the likes of Intel.

Competition in the chip market is, therefore, on the verge of becoming fierce, with the extending recession meeting rapidly advancing technology head-on. The result is likely to be far superior processors, but far fewer sources of supply.

The channels for computer distribution are becoming increasingly confused, writes **John Lettice**

Dealers dogged by spanners in the works

COMPUTER distribution channels today are probably more confused than at any point since they were set up in the early 1980s.

The sedate "manufacturer to distributor to dealer to customer" tiered distribution model has been modified and flattened as channels matured, but in the past two years numerous spanners have been thrown into the works.

Where two years ago dealers and distributors could talk about channels evolving in an orderly fashion, the developments of the past few months in particular suggest that many parts of the channel have in fact been shattered, and rather than evolving, are being rebuilt from the ground up.

Historically, the quests for economies of scale and critical mass have led to a series of acquisitions and mergers, where, for example, British distributors Frontline and Software were acquired by German company Computer 2000 and American combine Ingram respectively.

This in itself threatened the smaller distributors, as the larger companies quite reasonably view their most effective route to market as being to maximise volume and efficiency, and to win on margin.

The other historical trend has been towards dealer-distributor status, where a dealer chain, such as Computacenter, grows large enough to be able to deal direct with the manufacturer at more advantageous margins, while selling direct to large corporate customers at prices that smaller dealers can't match.

The view – widespread in the City two years ago – that distribution needed a direct sales arm to survive, has now been more or less discredited.

Nevertheless, it is clear that the use of direct sales provide distributors with access to price-sensitive sectors of the market that the traditional distributors have trouble in addressing, and still pose some difficult questions for trade-only distributors.

'The main problem for the trade now is more finance than margin erosion'

Mr Chip Lacey, president of Ingram, takes the view that in order to succeed in distribution you have to be in the top one or two in the markets in which you operate, but he qualifies this by broadening the area to cover specialist sectors as well as geographical territories.

Ingram, as a broad-based distributor, needs to come first or second by volume in each country, "but for example you could be one of the top two printer distributors in a given country".

In the UK Northamber, which has historically been spoken of as both a target for Ingram and – being trade-only – as one of the companies that will have most difficulty surviving the rise of the dealer-distributor, but Mr Lacey clearly thinks that its solid base in printers is enough to see it through.

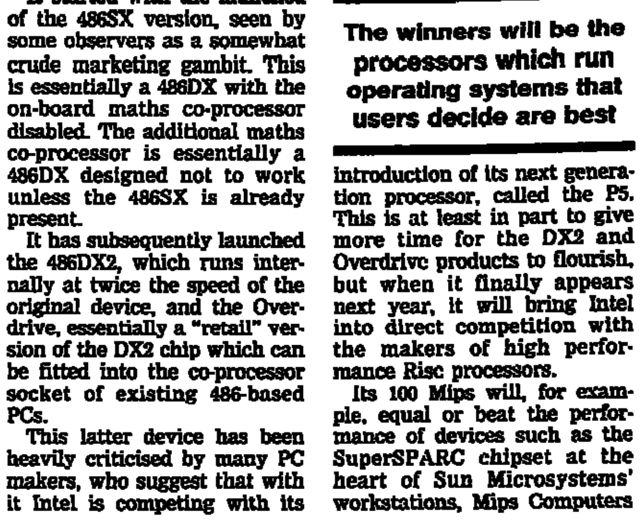
In the view of Northamber chairman Mr David Phillips, the main problem for the trade now is more finance than margin erosion. Computer dealers are being hurt by banks tightening up on overdrafts, and he suspects that the banks' motivation in providing credit ratings these days is all too often to shift the debt from the bank to the computer distributor.

"Dealers need three distributors – one to love, one to hate and one to go to when you're on credit hold," he says, and in his view, given the parlous state of European credit insurance, distributors are now largely on their own when it comes to assessing the risks of doing business with particular partners.

The most recent, and for the trade the most ominous, development in distribution channels is the trend for the manufacturers themselves to take control of the distribution channel.

This is partially a response to direct-sell specialists such as Dell, and partially to the host of followers, small assembly operations which have taken an estimated 20 per cent of the market by selling computers directly off the page and over the phone.

User ratings for hardware supplier features



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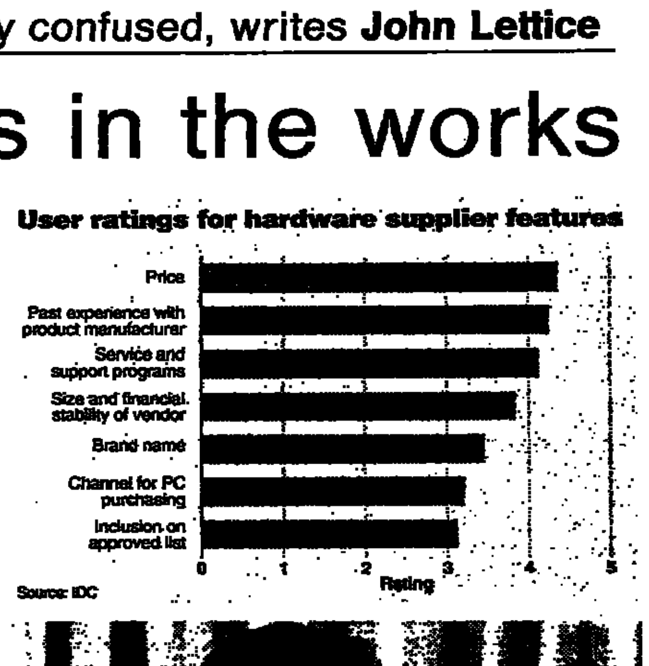

Jim Cannavino: IBM will be present in all channels

Earlier this year the head of IBM's personal computer division (recently floated off as the IBM Personal Computer Company) Mr Jim Cannavino said IBM would be present in all channels, and this has culminated in a series of initiatives that constitute varying degrees of threat to traditional channels.

The company has used Europe as a test market for new approaches to channels that have been, or shortly will be, applied to the rest of the world.

In the UK the first stage was the establishment of the PS/1 entry-level IBM brand through mass-merchandisers such as Dixons, and more recently through superstores, and this was followed up by the launch of the Ambra brand, an IBM clone built by Singapore manufacturer Wearnes, and sold by a separate company owned by IBM, ICPI, into the areas of the market that IBM had lost to the clones.

The success of Ambra has been compared unfavourably to that of Compaq's low-cost range (the theory for this was based on research of BMW's launch of the 3-series), but IBM has plenty more shots in its locker.

It is expected later this month to launch a series of souped-up PS/1s and another line of low-cost clones (this time built by the Korean company Samsung), along with a full-blown telesales operation.

Mr Howard Ford, head of the company's UK personal systems division, stresses that the indirect channel remains IBM's "primary route to market", but IBM's efforts to recoup business lost to the indirect channel will not in themselves help shore up that channel.

The challenge for the indirect channel remains to "get big, get niche, or get out", and any company without either an area of specialisation or sufficient mass to benefit from economies of scale is threatened.

"The guys who are in trouble", says Ingram's Mr Lacey, "are the ones who haven't yet picked a specialisation". And interestingly enough, Mr Lacey feels one of the areas most likely to see problems is the US, not Europe.

'As soon as growth stops, we'll begin to see failures in the second tier'

The US channels have historically seen 20 per cent annual growth, "and that's what's been keeping smaller distributors around," he says.

"As soon as growth stops, we'll begin to see failures in the second tier". Adjusting to lack of growth is one of the few problems the UK market does not face.

PROFILE: ASK

PCs move into management

A REVOLUTION has taken place in manufacturing over the past 15 years – with mini-computer-based Manufacture Resource Planning (MRP) software products being one of the vanguards of this change.

But now change has come to the revolution. Smaller desktop personal computers are starting to take on the management of big manufacturing systems in ways that traditional MRP software suppliers – and even PC hardware companies – considered impossible only a few years ago.

One of the best examples of this change lies at Compaq's European manufacturing plant at Erskine, Scotland. When it built the factory in the late 1980s, even PC manufacturing high-flier Compaq could not risk trying to run its MRP system on Compaq PCs and instead installed US software group ASKs MANMAN manufacturing business management software on a Hewlett-Packard minicomputer at the site.

Although Compaq would have dearly loved to run the manufacturing process for its PCs using its own PC products, the company was realistic enough to know that this was not possible with the technology available at the time. This month, however, Compaq will start looking at a new ASK product – known as MANMAN/X – that will run on Compaq PCs that use the Unix operating system.

The acronymns are not important here – the issue is that MRP systems are soon to be able to be offered on the kinds of small systems that even modest manufacturing operations are able to afford. ASK also predicts these systems will have to be much more tightly integrated to manufacturing processes and planning in the future.

According to ASK marketing manager Mr Paul Eggleton, a wider appreciation of manufacturing software issues cannot come too soon. "Historically, manufacturing information systems have concentrated on addressing the needs of a single facility or a particular function across a company," he says.

'There is a growing need for a framework to manage the data as a single entity across the entire corporation – not as a collection of business functions, products and facilities'

"Applications for manufacturing planning, purchasing, accounting, finance and customer service functions have reached a high degree of sophistication – however, the degree of integration between these applications outside the plant level and with the rest of the organisation remains low."

He suggests that a much higher level of co-operation will be vital in the future – and that software has a key role to play in bringing this about. "The number of organisations now operating the manufacture of different components in a number of plants in the Far East, with final assembly at plants in the USA and Europe is increasing," says Eggleton. "There is thus a growing need for a framework to manage the data as a single entity across the entire corporation – not as a collection of business functions, products and facilities. For example, this will enable a car manufacturer to switch its sourcing and supply of parts, and location of end unit production, dependent on current geographic market conditions."

ASK designs, develops, manufactures and markets a number of integrated management information systems for manufacturing companies – including the well-known MANMAN modular series of software products for the manufacturing, marketing, financial and management reporting needs of manufacturing companies. To get an idea of how MRP sky-rocketed over the past 20 years, you only need to look at the evolution of a company like ASK – which now boasts annual sales of more than $400m.

The company was founded in 1972 by Ms Sandra L Kurtzig, who recently stepped down as chief executive officer, but still remains chairman of the board, and by Mr Martin Brown, who also still retains a key role in the firm. Ms Sandra and Mr Martin originally provided programming services for clients in San Francisco's Bay Area until they started doing some custom programming between 1972 and 1974.

The first big custom product to come out of this work was a Manufacturing Automation (MA) system, for which the original logon code was MAMA. But to fit in with an operating system requirement for a six-letter logon, it was eventually extended an MANMAN was born. The product was first produced for HP's range of computers as Ms Sandra's husband was working at HP and she was able to produce a product to sit on a database on one of HPs minicomputers.

Ms Sandra then produced first the MRP application that used a database on a minicomputer and was promptly told she couldn't do things like that. After some hard work and a fair amount of marketing, Ms Sandra's efforts put ASK well ahead of the market and set the style for the others in the emergent MRP market – and soon other integrated systems were using databases on minicomputers.

The real breakthrough in this is that it made an MRP technique, which had previously only been available to IBM mainframe users in large companies, available to smaller companies. And now that power is going to be offered to even smaller enterprises with the availability of a Unix version capable of running on PCs. It could be the next wave of the MRP revolution.

Geof Wheelwright

Companies want to connect their PCs, writes **Philip Manchester**

Corporate computing keeps software developers busy

THERE is much to occupy personal computer software developers nowadays. They must keep pace with changes in hardware technology. They must allow for advances in infrastructural software, such as operating systems and graphical user interfaces (GUI) while, at the same time, anticipating shifts in emphasis in an increasingly competitive market.

But the most important item on the agenda for PC software companies in the 1990s is the transition from "stand alone" computing to corporate computing.

There is strong evidence that companies want to connect their PCs to each other – and to their central corporate computer resources. According to IDC, the market researcher, around 1bn PCs will be connected to some sort of network by 1995.

This means that both the infrastructural software and the application software, which turns the technology into a usable and useful system, will go through fundamental changes.

The changes are more than technological. They are also cultural. PCs have become a window on the world of corporate computing and applications software must change to accommodate this.

"We are now going through the same level of change as we did when we moved from punched-card input to character-based visual display screens in the 1970s," says Mr Robin Bloor, chief executive of ButlerBloor the UK-based research and consultancy company.

"This time the change is from character-based input to bit-mapped input."

Mr Bloor believes that PCs are the catalyst which has stimulated the change. They have provided users with the power to run local processing and GUIs – which in turn allows them to handle new types of data.

Bit-mapped input, which includes images, audio and video, would be almost impossible to process with character-based software.

But individual personal computing must be supported by the corporate network which must be able to offer centralised storage and processing services.

Mr Bloor suggests that the so-called client/server model of computing offers a way forward. This approach separates the "front-end" software associated with GUIs and personal computing from the "back-end" software such as database management and corporate transaction processing.

"Few PC software companies have realised the implications of the change. Client/server system bring in issues such as security, data integrity and system recovery – issues that few PC companies understand," says Mr Bloor.

In spite of this, however, some PC software companies have begun to take notice of the issues and build software which can meet both the local demands of personal computing and the global needs of corporate systems.

Notes has attracted wide support from leading systems integrators and software consultancies

Lotus Development, the originator of the ubiquitous 1-2-3 spreadsheet program, has led the way with its Notes "groupware" package – one of the first programs to exploit the advantages of the client/server model.

Notes has attracted wide support from leading systems integrators and software consultancies – including all but one of the "big six" accountancy companies.

It offers a way to build applications which can use both the front-end processing power of PCs and the back-end processing power of more traditional mainframe and minicomputer-based systems.

"There has been a major change in our business and how we sell our products," says Mr Paul Bailey, European vice-president of Lotus.

"With Notes we are no longer selling a commodity – a single, shrink-wrapped product off the shelf like the original 1-2-3.

"We must now work with third-party consultants or integrators to provide a service which can help build and then support applications," says Mr Bailey.

As a result, Lotus has had to take notice of the broader corporate issues and build its software to accommodate them. "Notes has features which ensure that data is replicated through the database and synchronise changes so that everyone sees the same data," explains Mr Dieter Geisebrecht, managing director of Lotus UK.

"The synchronisation rate can be pre-set by the user. This lets Notes give users a broad platform for corporate communications," he says.

Lotus is, of course, not alone in recognising the changes that result from integrating personal and corporate computing.

Other leading PC software developers have also seen the technology and cultural problems involved in bringing the two together.

Microsoft's Windows NT operating system software – scheduled for release by the end of this year – is another example.

When it is complete, Windows NT will incorporate many of the features which are usually associated with a minicomputer or mainframe operating environment with those now well established in personal computing.

In parallel, Microsoft is building applications software which allow user to share resources across a network and take in data from other systems.

Borland International, a challenger both to Lotus and Microsoft, is also working on software which will bridge the gap between personal and corporate computing.

Borland has been a leading innovator in application-building tools for PCs since it was founded in the early 1980s. In the past two years it has concentrated its efforts on what is called object-oriented technology – a new way of thinking about information technology systems which is quickly gaining credibility among manufacturers and software suppliers.

Object-oriented technology breaks systems down into a objects which can be related easily to working practice. An object can be anything from an invoice to a profit and loss account.

This approach makes it easier for non-technical users to build their own small-scale applications without the need to understand complex programming techniques. This does not mean, however, that there will be no need for professional programming expertise. But it opens up opportunities to spread the load.

"Professional staff can concentrate on the large-scale infrastructural stuff – but with object-orientation, users can build their own interfaces and processes based on their knowledge," explains Mr Mike Hill, marketing director at Borland UK. "They don't have to understand the runes to build effective applications," he explains

Like Lotus, Borland has recognised that it must also offer the background technical support for corporate computing.

One of the prizes of its takeover of Ashton Tate, the database market leader, in 1991 was the advanced Interbase database management technology.

"Interbase can offer a consistent view of data – regardless of what is going on in a system," Mr Hill says.

"If someone wants to invoke a large transaction – like a bank account summary – they can do it while other users continue to update the data. Usually it would have to be locked out – but Interbase's multi-generational features let the software keep track of changes easily and apply them when the transaction is completed."

Software developers will increasingly be forced to take account of issues that are corporate-wide

There is no doubt that all PC software developers will increasingly be forced to take account of the corporate-wide issues highlighted by Lotus's work with Notes and Borland's work with Objectvision and Interbase.

The days of the isolated PC are by no means over. But this is not where the action – or the profits – will be found in the 1990s.

Top 10 software packages: May 1992

	Package	Publisher/Supplier	Type	Unit sales %
1	Wordperfect 5.1	Wordperfect	Word processing	7.1
2	Word for Windows 2	Microsoft	Word processing	4.4
3	Supercalc 5.1	Computer Associates	Spreadsheet	3.5
4	Excel 4	Microsoft	Spreadsheet	3.3
5	Lotus 1.2.3 r3.1	Lotus	Spreadsheet	2.9
6	Central Pt Antivirus	Central Pt Software	Utilities	2.1
7	Qemm 386	Quarterdeck	Utilities	2.1
8	Dr Solomon's Toolkit	S&S	Utilities	1.9
9	Wordperfect for Win.	Wordperfect	Word processing	1.6
10	Lotus 1.2.3 r2.3.	Lotus	Spreadsheet	1.5

Source: Romtec

Western European PC shipments: January–June 1992

Market share and value			
Vendors	Market share (%)	Value ($m)	Value share (%)
IBM	14.7	1,638	19.1
Compaq	6.3	632	7.4
Olivetti	4.9	428	5
ZDS/Groupe Bull	3	270	3.1
Toshiba	3	267	3.1
SNI	2.3	243	2.8
ICL/Nokia	2.7	218	2.5
Hewlett Packard	1.8	208	2.4
Tandon	2.5	203	2.4
Amstrad	4.1	202	2.4
Vobis	4.1	180	2.1
Commodore	3.7	171	2
Others	46.9	3,916	45.7
Intel total		8,576	
Apple share of all product types			
	Market share (%)	Value ($m)	Value share (%)
Apple	6.5	744	6.4

Source: IDC

THE SoHo MARKET

New sector looks to the home office

THE LATEST addition to the personal computer industry lexicon is "SoHo", an acronym for "Small-office, Home-office" and a password for the return to fast-paced sales growth, according to US personal computer manufacturers.

A rapid increase in the number of people in the US who work from home is fueling the SoHo market and creating new opportunities to sell PC to individual customers.

"There are powerful forces at work which are creating this market," says Mr Tony Santelli, head of International Business Machines PS/1 brand team. Families with working parents who use computers at work are likely to purchase a machine for their own use and share it with their children. Professionals who have lost their jobs are setting up home offices to do free-lance or consulting work.

"Telecommuting" from home offices is also an increasingly popular way to beat traffic jams that is encouraged by environmentally conscious employers. Lower prices are drawing these potential customers into the PC market.

With fully configured systems selling for as little as $1,000, many more people can afford to consider a home computer. According to Apple Computer, some 14m US families can now afford to buy a home computer, of whom 7m have not done so in the past 10 years.

The requirements of the SoHo market are, however, quite different from those of traditional business market segments, Mr Santelli says. Sold primarily through retail outlets, PCs aimed at the home and very small business market are pre-configured at the factory, with software already installed.

The aim, he explains, is to enable the customer to "get up and running in 10 to 15 minutes". With recent additions to its PS/1 product line, IBM aims to get its share of the SoHo market, now dominated by lesser-known clone makers.

Apple Computer has also launched a new range of Performa Macintosh PCs targeted at the same customers. Dell Computer is also offering products aimed at individual buyers with its Dimension line of PCs, sold via mail order and its Precision brand, sold in the Price Club, a warehouse discount store.

Both companies have recently announced plans to offer their new products in department stores and consumer electronics stores where until recently only "clones" have been sold. "The traditional computer resellers were dominated by the 'brand name' products, so retailers became a haven for the clones," Mr Santelli explains. "We recognised that the retail channel represented an uncovered opportunity."

One of the primary concerns among this customer group is the fear of obsolescence

The so-called SoHo market is extremely price sensitive. People paying for computers out of their own pockets are more inclined to shop carefully and search out bargains.

However, one of the primary concerns among this customer group, according to computer makers, is the fear of obsolescence. Therefore, although they are looking for good value they want to buy the latest technology and the average selling price is well above that for bottom of the range machines.

In the US market, PCs based on Intel 486 microprocessors are rapidly taking the place of older 386 based machines as the highest volume products in all market sectors and the SoHo segment is no exception.

Louise Kehoe

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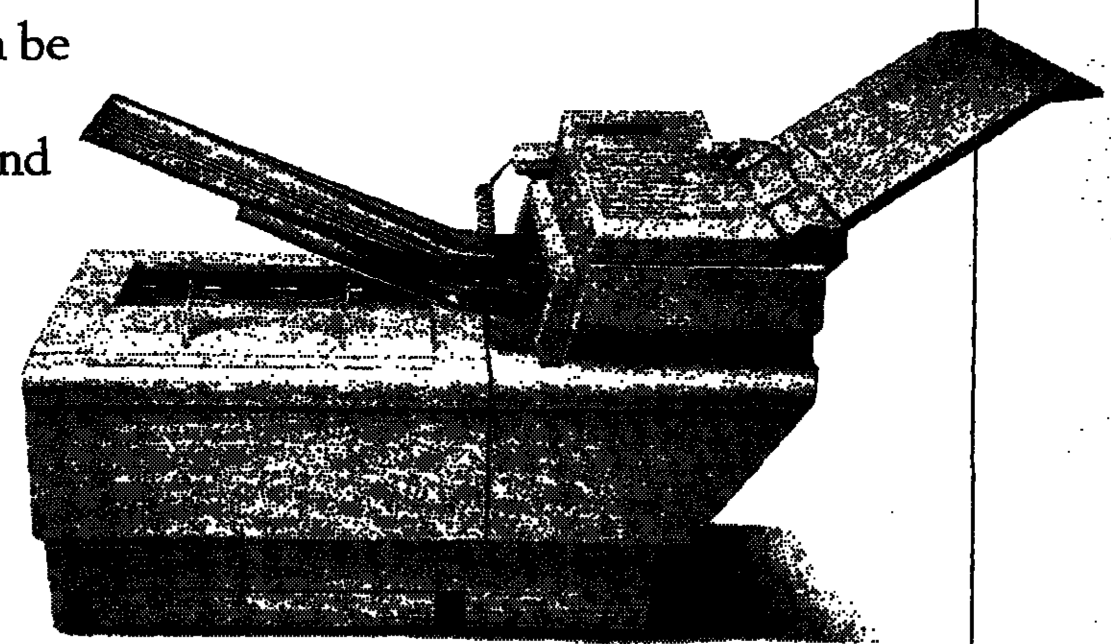

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Prices based on manufacturer's lists. *Speed based on CCITT Test Chart No:1 in standard resolution at 14,400 bps.

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FINLAND

■ Trade and investment: making the image warmer Page 4

SECTION IV

Wednesday September 30 1992

Public spending cuts are set to follow the floating of the markka earlier this month. The country's affluent standard of life will decline and the fear is that the 1990s will be a long hang-over. This survey has been written by **Robert Taylor**

Carefree days are ended

FINLAND this autumn is edging along a precipice. The floating of the markka on September 8 to stem the dramatic outflow of the country's capital reserves has brought a deep sense of national crisis.

To many Finns this autumn's turbulent events on the money markets have come as an unwelcome shock. For most of their country's short history they have weathered political and economic storms with a pugnacious finesse. Now they must face what looks like being a harsh reality.

During the next few weeks the centre-right coalition government of Mr Esko Aho must agree and push through parliament a range of cuts in spending programmes as far ahead as 1995 that will mean a sharp contraction in Finland's public service sector and lower living standards for everybody.

No social benefit or government funded project seems likely to be spared critical scrutiny. Under the unseeing but merciless pressures of a turbulent international money market, Finland's carefree days of semi-isolated, regulated independence are over, probably for good.

"The people are ready to accept radical decisions," Mr Aho told the Financial Times. He and many other Finnish policy-makers believe the mood has changed since last autumn when the country was forced to devalue the markka by 12.3 per cent and opinion was divided on what to do.

But the prime minister and his coalition colleagues will have to show a much greater willingness to use the knife on cherished spending programmes than they displayed during the course of this year when Finland seemed to lurch from one crisis to another as sceptical foreign financial opinion questioned the government's economic performance.

"We had a credibility problem after the devaluation," admits Dr Sirkka Hämäläinen, governor of Finland's central bank. She disliked having to float the currency and hopes it can be pegged at an exchange rate related to the European currency unit once the markets have calmed down.

Floating provides a breathing space but is no solution for anything. Indeed, there is a strong chorus of complaint from Finnish industrialists who dislike the uncertainty that a floating markka means for business. The trade unions are also unhappy because they face the prospect of having to accept a real cut in the wage packets of their members for next year in central pay negotiations with employers.

For the politicians as well, floating is not an easy option. Next month, Finland goes to the polls in local government elections and no party wants to say or do anything unpopular before the results. The Conservatives in the coalition may lose ground, though Mr Aho is confident his own Centre party will show greater resilience. After all, as ministers insist: "There is no alternative" to what they propose to do.

Whatever happens, Finland is not about to suffer a relapse to the kind of misery and deprivation the country knew during the inter-war years. As Dr Hämäläinen points out, all that the country needs to return to the straight and narrow is contract its public sector to its size in the early 1980s before the government became a really big spender.

Nonetheless, relatively straitened times will not come easily to the Finns as they prepare to celebrate the 75th anniversary of their independence from Russian rule. In recent years they have grown used to a standard of life that is one of the most affluent in the world.

Under the shadow of Soviet Communism for its first days of freedom in 1917, Finland survived the Second World War not through diplomatic appeasement but from fighting bravely against the Red Army. It was the only European country to confront Stalin that escaped eventual Soviet occupation.

After 1944 the Finns were forced to pay large reparations to the Kremlin. Yet four years later they entered into a bilateral clearing house trade agreement with the Soviet Union that lasted until 1990 and was of enormous benefit for Finland as the country received an agreed volume of crude oil and natural gas in return for selling its neighbour sophisticated manufacturing goods and consumer durables.

In its foreign and defence policy the country stood firmly neutral. It eschewed moral posturing that might offend the Soviet Union and western countries. At the same time Finland grew rapidly after the 1960s as a thriving market economy, the most capitalistic in the Nordic region. With more than a touch of luck but also a great deal of cunning, the Finnish political establishment was able to enjoy the best of both worlds.

The results in the 1980s were remarkable as Finland's growth rate rose much faster than the western European average. In the past, Finns had emigrated in search of work to Sweden and further afield: now they came home. There was almost a Klondyke spirit in Finland as personal consumption reached Swedish levels. It became almost commonplace for families to enjoy two extended holidays a year.

It is the speed at which that aggressively booming, swaggering image of the country in the 1980s has changed that bewilders and angers many Finns. From boom to bust in 18 months is an experience no other western European country has suffered in recent times. Dr Max Jakobson, a former diplomat, notes gloomily that Finland is "heading into worse times". The 1990s look like being one long hang-over for the country.

This does not mean Finland is about to witness the rise of political extremism. "The left-right spectrum is meaningless these days," says Dr Jakobson. Finland does not even have any populist anti-statist party, unlike other Nordic countries. But there is widespread apathy and disillusionment with the political system.

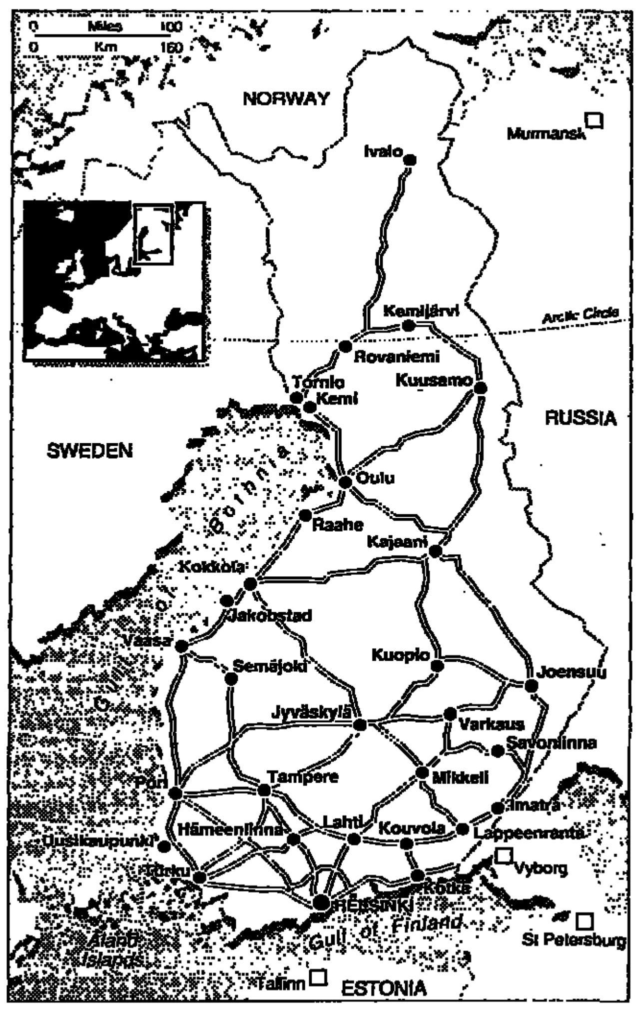
Accustomed to a sense of security, many Finns are keen to ensure their country is anchored firmly with western Europe. Support for European Community membership remains much higher in Finland than elsewhere in the Nordic region. Negotiations are expected to start with Brussels early next year and a national consensus persists on the merits of joining the EC. Last spring's application for entry by Mr Aho's government has still not produced a fierce backlash even after the narrow Danish No vote against the Maastricht treaty in June.

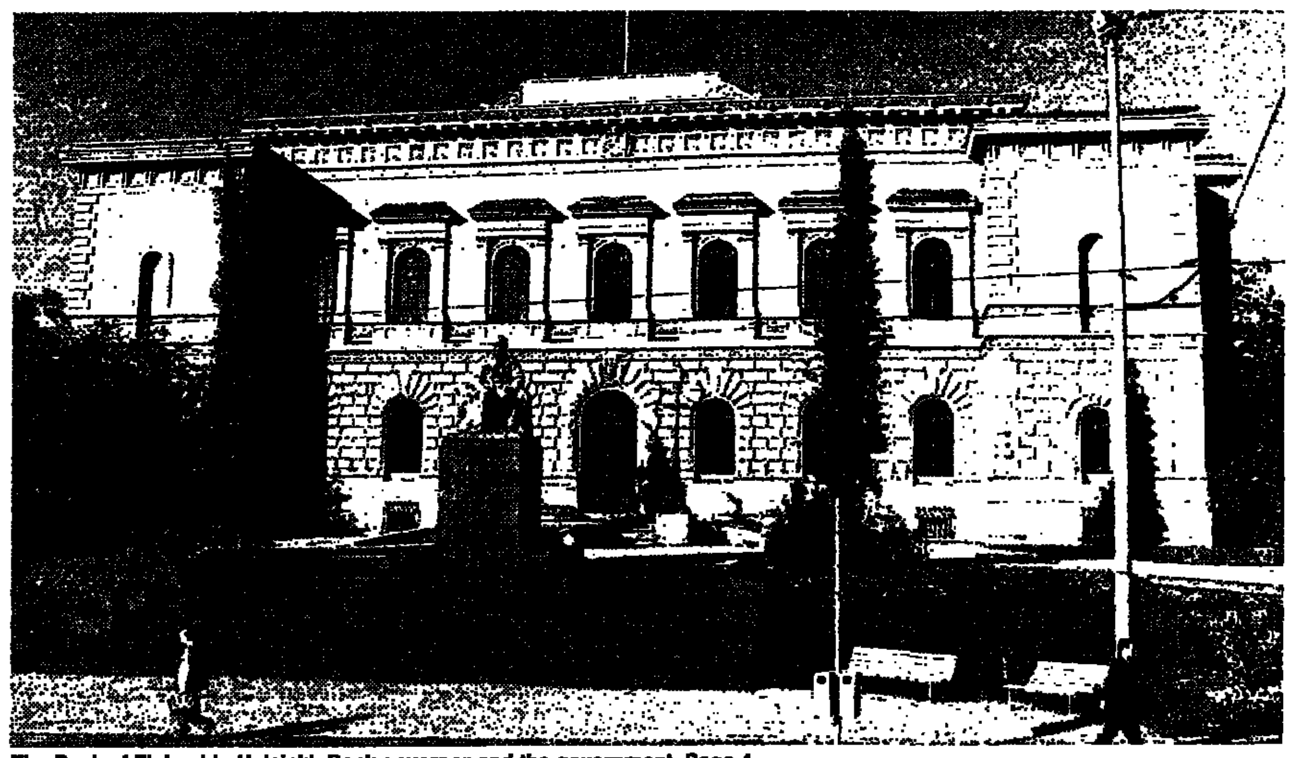
Dr Jakobson believes there is a good reason for this. "Many Finns want to be in the EC not for material reasons but to identify themselves with western Europe," he explains.

Neutrality, the sense of balance between east and west and the need to maintain a special relationship with Moscow were the crucial signposts that guided post-war Finnish foreign and security policy. But now, they have lost almost all their relevance. Slowly, Finland is edging closer to a realisation that its national interest lies through developing a greater sense of collective security in Europe. Ministers do not rule out eventual participation in the Western European Union or whatever military formation emerges out of the EC in the future.

This is not to say that Finland wants to provoke or humiliate Russia. On the contrary, Helsinki's policymakers are keen – within clearly defined limits – to remain on good terms with their neighbour but they share no illusions on what may lie ahead. A conservative, nationalistic dictatorship with revanchist claims on Finland seems improbable at present. But many Finns are uneasy about what they see as the spread of criminality from Russia that has brought drugs, prostitution and black market activity to the streets of Helsinki.

There will be no "open door" policy to potential Russian immigrants. Nightmare visions two winters ago of hundreds of thousands of hungry jobless Russians trying to break into Finland may have been melodramatic and mistaken but Finland is not going to relax its guard.





The Bank of Finland in Helsinki. Bank governor and the government, Page 4

After a deep recession, there are signs that the economy is starting to recover

Perhaps the worst is over

THE Finnish economy is going through its deepest and longest recession for over 60 years. In 1991 the country's real gross domestic product plummeted by 6.5 per cent, the sharpest drop Finland has known this century in peacetime. There will be a negative growth rate – of at least a further minus 1.5 per cent – this year.

Production in manufacturing sank by as much as 10.7 per cent last year while there was a 12.1 per cent decline in production in the construction sector. Unemployment, only 3.5 per cent in 1990, climbed to 7.6 per cent last year and is now over 14 per cent. This winter the number of jobless is expected to peak at about 350,000 or 15 per cent of the population.

Finland's current account deficit will total FM18bn in the current year, 3.3 per cent of GDP. The collapse of the country's trade with the former Soviet Union has been particularly painful with a fall of no less than 65 per cent last year alone. The textile sector suffered a 30 per cent contraction in its exports as a result.

The squeeze on living standards has been severe. With a rise of only 2.2 per cent in real earnings in 1991 and an expected zero increase this year, household real disposable income rose by 0.7 per cent last year and fell by 5.5 per cent in 1992.

During this year, Finland has started to pull itself painfully out of its slump. "Today we have rather a schizophrenic economy," observes Dr Pentti Vartia, head of the Research Institute of the Finnish Economy (Etla). A number of key indicators suggests that the worst could be over:

■ Last November's 12.3 per cent devaluation of the markka has helped the competitiveness of Finland's main export industries – pulp and paper and engineering. The volume of exports is likely to rise this year by 18 per cent. Although Finland's overseas markets – Sweden and Britain – have been sluggish, both Germany and France have provided good export opportunities.

Over the first six months of this year the country's metal and engineering sector enjoyed a rise of more than 20 per cent in its export earnings to FM25bn. The recovery has been particularly noticeable in the electro-technical and electronic sector as well as transport equipment while the export of steel and metals also improved.

KEY FACTS

Area	337,030 sq km
Population	5 million (1991 estimate)
Head of State	President Mauno Koivisto
Currency	Markka (FM)
Average Exchange Rate	1991 \$1=FM4.0440
	16/9/92 \$1=FM4.8024

ECONOMY	1991	Latest*
Total GDP ($bn)	126.2	n.a.
Real GDP growth (%)	-6.1	-3.4
GDP per capita ($)	25,242	n.a.
Components of GDP (%)		
Private Consumption	55.1	57.9
Total Investment	21.4	17.8
Government Consumption	24.1	24.6
Exports	21.8	25.2
Imports	-22.4	-25.5
Consumer prices (% change pa)	4.1	2.7
Ind. wage rates (% change pa)	6.8	3.8
Unemployment (% of lab force)	7.8	12.7
Reserves minus gold ($bn, Dec)	7.6	7.2
Narrow money growth (% pa)	-8.6	1.8
Broad money growth (% pa)	2.9	1.4
Discount rate (% pa, year end)	8.5	9.5
Long-term govt bond yield (% pa)	12.6	14.1
FT-A index (% change over year)	-13.7	-22.2
Current Account Balance ($bn)	-5.8	
Exports ($bn)	23.0	n.a.
Imports ($bn)	21.9	
Trade balance ($bn)	1.1	
Main Trading Partners (1991, % by value)	Exports	Imports
Germany	15.4	16.9
Sweden	13.9	12.3
UK	10.4	7.7
EC	51.2	45.9
Efta	20.6	19.9

* = 1992 figures (GDP growth & components, wages - Q1; unemployment, money supply - May; inflation - June; reserves, interest rates - July; FT-A index -% change from 31/12/91 to 16/9/92)

Sources: IMF, OECD, Datastream, Economist Intelligence Unit

The picture has been less satisfactory in mechanical engineering. Fimet, Finland's engineering federation, believes the demand abroad for goods from the country's metal and engineering sector will strengthen during 1993. This may compensate to a certain extent for the decline in the domestic market which looks like continuing into next year.

■ Finland is likely to improve its labour productivity this year by 5.5 per cent and by a further 4 per cent in 1993, according to Ministry of Finance forecasts. There is expected to be an actual 0.5 per cent decline in real earnings next year with an 8 per cent fall in labour costs in manufacturing measured by unit of output this year, with a further decline of 1.5 per cent in 1993.

■ Inflation is going to be at historically low levels with a rise in next year's consumer price index of 2.5 per cent, half of which will be caused by increases in indirect taxes and public charges. The price competitiveness of Finland looks impressive for once.

But there is also a darker side to Finland's present economic outlook. Investment prospects remain bleak, according to the forecasts which suggest it may be 1994 before any upturn can be expected. As Etla says in its latest report: "The commencement of investment activity is being hampered by the low capacity utilisation rate, high indebtedness and financing difficulties. The investment ratio will remain exceptionally low for several years and the capital stock will be reduced."

The biggest single economic headache for the Finnish government is the rapid escalation of its own debt. At the end of 1991 it amounted to 18.3 per cent of the country's gross domestic product. With local authority spending, the debt amounted to 23 per cent of GDP, at FM117bn. This year it is expected to have risen to FM160bn.

The projections for the next few years suggest that without a much tighter government fiscal policy the budget deficit and the funding of it will swallow up most of Finland's GDP by the middle of the decade.

Why has the government's debt risen so fast? Part of the trouble stems from the decline in tax revenues as the recession has deepened. But Mr Aho, the prime minister, also blames the cost of financing rising unemployment and the banks' problems that have already forced the government to put aside about FM28bn to assist those in trouble.

There is little doubt that the public sector grew too fast in the carefree 1980s. By Nordic standards, Finland has a relatively small public sector. This year it accounts for 48 per cent of total output but the trend of public consumption since 1970 has been ever upwards. Taxes have risen as a proportion of GDP from 31.1 per cent in 1970 to 37.1 per cent today.

"Ordinary people understand we cannot go on the way we were doing," says Mr Iivo Viinanen, the country's finance minister.

Mr Jaakko Iloniemi, head of the Centre for Finnish Business and Policy (Eva), agrees. "There is a much greater national awareness of the need for radical adjustments," he says. "It is up to us to clear up our own mess."

Most policy-makers accept the country's public sector must be reduced but the troubles centre over the precise detail on what has to be cut. The government is working on a medium-term strategy to reduce its spending programmes up to 1995. Next year the cuts already agreed by ministers amount to FM18bn, 10 per cent less than in 1992 with further cuts proposed of FM20bn-30bn for 1994 and 1995.

Mr Viinanen warns that this will mean slicing away at the state's large cash support for agriculture as well as a contraction in the value of many social benefits and financial support for local authorities. "It is going to be hard to do this but anybody else would have to do the same," he adds.

"The chickens are coming home to roost," declares Mr Jarl Kohler, head of the forestry employers' association. "There is now a good *rapport* between government and industry. We are talking constructively together now. Everybody accepts the reality."

Although the pulp and paper sector benefited competitively from last November's devaluation, Mr Kohler has no enthusiasm at all for the floating markka. The weak dollar has hit the industry, as 20 per cent of its business is invoiced in that currency. Forestry's foreign debts total an estimated FM30bn. At present, Finnish paper mills operate at only 81 per cent of capacity. Mr Kohler warns: "We will only invest in new capacity when there is a market for the product and it is profitable."

Despite the turbulence of the markets and continuing anxieties over the financial sector, the Finnish economy should ease gradually upwards next year. Total output, according to government estimates, should improve by 3 per cent in 1993 with a continuing strong export performance. The current account deficit looks set to fall to around FM10.5bn next year, or 2 per cent of GDP. There is also expected to be a modest recovery in investment in machinery and equipment of around 2.5 per cent.

Industrial production looks set to grow by 5.5 per cent next year with a particularly sharp improvement in minerals of 12.5 per cent and a 6.5 per cent increase in manufacturing. Inflation is set to rise slightly to 4 per cent through a further 10 per cent depreciation of the markka when it is eventually pegged again to the European Currency Unit.

But Finnish average living standards will stagnate at best, if not decline further as unemployment stays high and domestic demand is squeezed. Wage "flexibility" is expected to cut most real incomes despite a rise in labour costs of around 4 to 5 per cent in engineering and forestry.

After the spread of financial chaos across the European money markets last month, Finnish policy-makers feel less harassed and apologetic about their decision to float the markka. They believe the European Commission in particular recognises they faced no alternative but to take such unorthodox action.

However, Finland's economy remains more sensitive than most to the vagaries of the outside world. The size of the proposed government cuts package may go some way to calm the markets. But Mr Viinanen and his cabinet colleagues will need to show greater determination if they hope to convince the foreign exchange dealers that Finland is serious about coming to terms with more straitened times.

POLITICS

Pace gets a bit quicker

Esko Aho, the prime minister, is 36. Is he tough enough?

VOTERS' PREFERENCES

	1991 election	May 1992	August 1992
Centre	24.8%	18.9%	18.9%
Conservatives	17.2%	17.9%	17.7%
Social Democrats	22.1%	24.3%	23.7%
Left	10.1%	10.7%	11.0%
Greens	6.8%	10.8%	9.8%
Swedish People's	5.5%	5.7%	6.4%
Rural	4.8%	3.4%	4.8%
Christian People's	3.1%	4.4%	3.9%
Liberals	0.8%	1.1%	1.0%
Others	2.6%	2.8%	2.8%

Attitudes towards the European Community

	1987	1990	May '91	Dec '91	Mar '92	Jun '92
For EC	39%	63%	58%	43%	53%	50%
Against EC	12%	12%	14%	24%	22%	31%
Don't Know	49%	24%	31%	33%	25%	18%

THE SLOWNESS of Finland's political system is exasperating the international money markets. "Our politicians are a lap behind in the race to keep up *with events,*" observed one senior commentator. But Finnish ministers are unused to having to make quick decisions on important issues. They like to take their time, consulting and negotiating as widely as possible.

The building of consensus remains a vital ingredient of Finnish politics. This is why it can often take weeks, even months, before agreement can be reached on economic policy questions, rather than a matter of days. Such a leisurely tempo of work may or may not ensure better decisions are eventually reached, but what is becoming increasingly clear is that this is failing to impress the outside world.

Earlier this year, Mr Aho's coalition appeared to recognise the need to speed up the process of decision-making. It proposed, and parliament agreed, that a sensible change had to be made to the constitution, which ensured in future that a simple and not a two-thirds parliamentary majority was needed for the passage of any measure to cut government spending.

Ideally, this should make it much easier for Mr Aho's centre-right coalition government to secure the necessary parliamentary approval later this autumn for whatever tough economic cuts are planned for 1994 and 1995.

President Koivisto has kept his distance from events but many would like to see him take more vigorous action

But the ruptures and conflicts that may well break out both inside and between the political parties in the government, particularly in the aftermath of the October 18 local government elections, and these could threaten its already fragile existence.

Some ex-ministers are already complaining that Finland is about to Americanise its social welfare system to please the money markets with cuts that will tear to pieces many cherished spending programmes. However, it still seems unlikely that the painful but necessary cuts that ministers will agree upon are going to polarise Finnish politics.

The main Social Democratic opposition has moved a long way since earlier in the year to accept the need for cuts in public spending. Under its new leader, Mr Ulf Sundqvist, an ex-banker, it takes a robust free-market view of affairs nowadays. Although keen to see government action to keep down the level of unemployment, the party accepts most of the government's key economic arguments.

"We recognise we have a serious debt problem," says Mr Sundqvist. "We must cut our foreign borrowing and we also have to stabilise the markets. We need a broad agreement on balancing the budget over the next two to three years."

The Social Democrats would like to see an immediate government reconstruction and they favour their own early return to power in perhaps a broader-based coalition of national unity.

Mr Esko Aho, the prime minister, is not so enthusiastic about such an idea. "The most important point is not who is in the government but what the policy is," he argues. "There are still some serious questions to be asked about what the Social Democrats want." Still only 36, the Centre party leader has come in for a barrage of widespread criticism, particularly in the Finnish media. He is accused of being too weak, too accommodating to his colleagues and not tough enough for the job.

Such attacks are unfair. His government inherited a miserable economic legacy when it took office in April last year and it has tried belatedly to come to terms with what is needed to rectify the underlying problems.

Moreover, it is often forgotten that Mr Aho led most of his Cabinet colleagues and his own rural-based Centre party into accepting that Finland should seek membership of the European Community. The conversion was slow and deliberate but it appears to have convinced most of the country. When the EC application was handed over in Brussels last April it was with wide support in parliament and with the backing of public opinion.

More severe questions could be raised about the behaviour of President Mauno Koivisto. Although he is now half way through his second seven-year term, Mr Koivisto has seen his popularity fall away this autumn because of what is seen as his Olympian treatment of the economic crisis.

Many outsiders might be forgiven for thinking that the Finnish president is essentially an honorary post, judging by Mr Koivisto's behaviour. However, under the constitution he has considerable powers, similar to those of President Francois Mitterrand in France.

Mr Koivisto, a Social Democrat, however has kept his distance from events. His sporadic interventions in support of Mr Aho's government have done little to reassure the Finns.

Many would like to see him take much more vigorous action by giving a lead in the flamboyant manner of Mr Urho Kekkonen, the famous post-war president who intervened on a number of occasions to restructure governments.

Unhappily, Mr Koivisto appears to have taken a minimalist view of his constitutional powers. Indeed, some observers believe he has devoted more time at least in public to telling the newly independent Baltic states how to conduct their own internal affairs than in expressing a considered and distinctive view about the economic troubles of his own country.

But his attitude may well change in the coming weeks if the economy fails to improve and the government parties suffer a severe setback in next month's local government elections. There are clear signs of a growing sense of national urgency in Finnish politics. The pace may not have quickened fast enough to please the markets but the allegedly time-consuming process of making decisions looks as if it is coming to an end.

Problems of the banks

Taxpayer faces bill

THE FINNISH banking system continues to face severe problems as it wrestles with huge credit losses. Last year they amounted to 1.6 per cent of total loans compared with only 0.5 per cent in 1990. The banks suffered a total operating deficit of around FM5bn in 1991 and credit losses soared to FM7.6bn while non-performing loans totalled FM40bn.

Earlier this year, there was a serious danger of a weakening in the capital adequacy of the banks with a resulting restriction in the supply of credit available to customers which would have deepened the recession. From 1993, all banks involved in international operations must maintain an 8 per cent capital ratio.

Many of the troubles facing Finland's banks were due to their own mistakes. The picture is similar to that of the other Nordic regions with over-extended use of credit at excessively low rates of interest and inadequate collateral, a lax system of checking customer creditworthiness, risky investments in real estate and a wasteful use of resources.

But the position was made worse by the last government's loose fiscal policy at the end of the 1980s and the reckless atmosphere caused by sudden financial deregulation. Finnish companies and households were swept up in a free-wheeling spree.

The severity of the bank crisis has forced the Finnish public authorities to intervene increasingly since the central bank rode to the rescue of Skopbank, the country's fourth largest commercial bank in September 1991. It was helped through a FM2bn capital injection and a radical restructuring of the bank that involved creation of three separate holding companies to cover industry, shareholdings and real estate. Outstanding loans valued at FM2bn were written off.

In March this year an attempt was made by the government to try to restore confidence in the financial system as a whole. This involved both a plan for government investments totalling FM8bn in certificates issued by the banks and the creation of a government bank guarantee fund on Norwegian lines with maximum liabilities totalling FM20bn.

At the same time the government has been actively encouraging a substantial consolidation of Finland's banking sector through mergers and amalgamations. Forty-one of the country's regional savings banks were brought together in one organisation to be called the Savings Bank of Finland. The future of Skopbank is under discussion at the moment between the government guarantee fund and the leading commercial banks, most notably the Union Bank of Finland.

Ministers remain concerned about the further demands that are likely to be made on the state by the ailing financial sector in the months ahead which could add substantially to the budget deficit. The government has made it clear that it will underpin the system. No bank is going to collapse. But the total cost to the taxpayer of saving the financial sector from the follies of the late 1980s remains uncertain.

The government has encouraged banking sector consolidation through mergers and amalgamations

Clearly, this vague further demand on budget resources will add to the government's debt burden and make it even harder and more painful to make the cuts designed to calm the uneasy markets.

"Additional resources will be needed," admits Dr Sirkka Hamalainen, the central bank governor. Mr Aho, the prime minister, also emphasises the troubles of Finland's banking sector along with the cost of unemployment and falling tax revenues to explain Finland's budget deficit.

It will take a long time for Kansallis-Osake-Pankki, Finland's largest commercial bank, to recover from its financial troubles. Last month KOP had to accept a FM1.73bn capital injection from the government to strengthen its capital base and improve its capital requirement ratio by 1.5 per cent to 8.8 per cent.

"The bank's troubles are much worse than I expected when I arrived here," admits Mr Pertti Voutilainen, KOP's chief executive officer since last February. Since he took over, Mr Voutilainen has halved the size of the executive board and pushed through a 10 per cent cut in the number of staff employed which will be completed this year.

Above all, he has launched a strategy designed to focus KOP's activities on basic banking services through a relocation of its resources. There is less concentration now on real estate management and the equity portfolio. KOP has decided to concentrate its international activities on customers directly involved with Scandinavia. "We are going to do what we can do best," explains Mr Voutilainen.

But the troubles at KOP are deep-seated and they look like persisting for the time being.

The Union Bank of Finland, the country's other leading commercial bank, also has problems. In August it issued a maximum FM950m convertible bond loan to strengthen its capital base by improving its lending ability to the tune of FM10bn. With a capital adequacy of 10.7 per cent and a 7.4 per cent for its tier one capital, the bank has a strong position by international standards.

But, like others, it has gone through substantial restructuring. This month the group's new organisation came into force when Unitas became a holding company with subsidiaries for commercial banking and strategic holdings.

In June it moved its investment banking operations to a separate company, called Mandatum. All Union Bank's merchant banking activities were transferred to the company, which does not form part of the Unitas Group but became a partnership. "This reorganisation will re-enforce the Chinese walls between commercial and merchant banking operations," says Mr Vesa Vainio, Union Bank president.

Last year the bank suffered an operating deficit before extraordinary items, appropriations and taxes of FM128m compared with a FM480m profit in 1990 and this year the loss will be higher. The bank expects a further loss in 1993.

NUCLEAR ENERGY

Fifth reactor planned

A GOVERNMENT decision is imminent on whether Finland is going to have a fifth 1000MW nuclear power station to meet its future energy needs.

Most of the signs suggest that the politicians will bow to the demands of the country's main energy intensive export industries, most notably forestry, and recommend the go-ahead. A final decision will rest with parliament, but Finland's anti-nuclear movement may find it difficult in present circumstances to mount an effective campaign against a proposal to build a fifth reactor.

The power companies submitted an application for a decision in principle for a new nuclear facility in May 1991 and it has led to some serious divisions inside the cabinet of the centre-right government. If the green light is given, the new nuclear station could begin production by the end of the century.

An added complication to the energy debate in Finland is the on-and-off discussion over the proposed pipeline to bring natural gas from the Norway's Haltenbanken field in the North Sea, with its known 300bn cubic metres of reserves, across Sweden and under the Gulf of Bothnia to Finland. The pipeline, which could be built by the Neste company by 1998, is seen by some observers as an alternative to a fifth nuclear power plant but this looks unlikely. For its part, Neste says it is complementary to the nuclear decision.

For Finland's export industries the crucial factor in energy supply is price. At present, they enjoy some of the cheapest industrial energy prices in the world, due largely to the nuclear power component. If they became more dependent on imported coal or natural gas – neither of which exists in Finland – their energy costs would rise.

There is also talk of using biomass – organic waste products – as an alternative fuel source. But few observers believe that this technology could compete commercially with nuclear energy. Finland may have abundant supplies of wood chips, bark and waste-wood to burn, currently producing about 15 to 16 per cent of total energy needs. But this appears to be the commercial limit for this form of fuel, particularly if an upturn in the forestry industry increased demand for wood.

IVO: the five year record (in Finnish marks)

	1987	1988	1989	1990	1991
Turnover	4.329bn	4.376bn	4.742bn	5.389bn	5.743bn
Profit*	528m	420m	488m	532m	230m
Return on investment (%)	12.1	8.6	8.5	8.8	7.4

*Before extraordinary items

Imatran Voima (IVO), the Finnish power generating company, makes no secret of its own preference. It wants parliament to approve the fifth nuclear reactor. Indeed, IVO has already drawn up a short list of six different choices of reactor. The company has no wish to delay making its choice once it has the opportunity to push ahead. It runs already the two Soviet built 445MW pressurised water reactors at Loviisa which were established in May 1977 and January 1981.

IVO is a state-owned company which is Finland's largest supplier and seller of wholesale electricity. It is also the country's leading producer of electricity as well as being the second largest producer of district heat.

Last year its power generation totalled 12.313bn GWh, with just over half that coming from nuclear power followed by coal, peat, hydropower, natural gas, oil and industrial waste and 0.16 GWh from wind power.

The company does not confine its business activities to Finland. It runs an international subsidiary which was responsible for an estimated 660 projects and assignments in 24 countries last year. IVO is involved in a number of operations in the Sudan, Uganda and Tanzania as well as Abu Dhabi and Nepal. It has recently constructed a factory to manufacture district heating pipes in St Petersburg.

Earlier this year, IVO teamed up with Jaakko Poyry Oy, the Finnish forestry consulting and engineering company, in the creation of an organisation called the Energy Consultation Group with the objective of improving energy efficiency in areas of Russia neighbouring the Finnish border.

The two companies, which together employ 3,000 engineers familiar with the Russian energy sector, are in a good position to provide the necessary know-how for a substantial improvement in heating and energy conservation projects in Russia. The trouble, however, is the financing of such schemes and private companies are looking to the Finnish government to back what they want to do.

There is little doubting the concern among ministers about the safety of Russia's nuclear power stations close to Finland's eastern border. Earlier this year, the government earmarked FM6.4m for co-operation with Russia on nuclear safety on the Kola peninsula, where there are four 440MW light-water reactors of the VVER type, and at the Sosnovy Bor power station in St Petersburg which includes 1,000MW graphite-moderated reactors of the RBMK type, similar to the one at Chernobyl.

SHIPBUILDING

Kvaerner to the rescue

MANY FINNS regard Mr Martin Saarikangas as the saviour of their country's shipbuilding industry. President and chief executive officer of Kvaerner Masa-Yards, he is a larger than life character with a lifetime in making ships. When Wartsila Marine went bankrupt in October 1989, this huge man came to the rescue.

After working at the yards for nearly 30 years, he had a strong disagreement with the old Wartsila management in 1985 over its future strategy. He lost the argument and went into virtual exile in the US, only to return when the company fell into severe financial trouble.

At that time the company yards were run with the co-operation of the original shareholders, including the Finnish government, the Union Bank of Finland and a number of shipping companies which had placed orders with Wartsila before it went bankrupt.

This could never have been more than a temporary solution. Mr Saarikangas and others searched for a new, more permanent owner who would keep the yards in Helsinki and Turku open. "We needed a strong shareholder. We could not exist alone," he argues. A "Finnish solution" was found to be impossible but in autumn 1990 the Norwegian industrial company Kvaerner came to the rescue with NKr700m, becoming owner on March 22 last year.

Some Finns questioned whether the fate of a large part of their country's shipbuilding industry should depend on the attitude of a foreign concern such as Kvaerner but their doubts appear to have been misplaced. In fact, the Norwegian company has an interest in practically every segment of shipping and there are obvious synergies to the benefit of the Masa yards.

As Mr Saarikangas explained in last year's annual report: "Our strength today within passenger shipbuilding and the Arctic segment will also diversify into the field of oil and gas exploration and bring new orders to our yards in Finland thus improving our competitiveness and labour situation."

In the last financial year the yards made a profit (after financial items) of FM270.9m and achieved total net sales of FM1.910bn but this year the performance is not expected to be as good.

The change of ownership at the yards has brought with it a clear change in business attitudes. Mr Saarikangas has sought to transform shopfloor attitudes with the introduction of teams into workplace organisation and a considerable cut in overhead costs. The company has pushed through a multi-million markka programme of retraining that was completed this summer.

He is very critical of the way in which the yards were managed during the 1980s. "Many important basic values were forgotten," he argues. In his opinion there had to be a return to "basics, such as appreciation of work, high quality, honesty and reliability." But this has not meant a return to a macho style of management. Mr Saarikangas is keen to stress the need for involvement in ship production at all levels of the workforce. "We need good human relations and a strong belief in our own skills," he argues.

The transformation in the yards has begun but he accepts it will take time, patience and a constant emphasis on efficiency before the company can reach a position where it can survive.

The immediate outlook remains uncertain as long as the recession continues in Europe and the US. This has inevitably brought postponement of new projects and few new orders in shipping. But Mr Saarikangas says that the mid-1990s will be "a good time" for the industry and for the company.

At present the yards have an order book valued at FM6.5bn. There are enough orders to ensure the Helsinki yard is kept fully employed until the second half of 1995 but at Turku, where the yard is one of the largest and most modern in Europe, the outlook is uncertain with the last order due for completion by the third quarter of next year.

But a question mark hangs over the prospects of any revival in the traditional export orders from the Finnish yards to Russia which collapsed two years ago with the end of the old clearing house trade system.

At that time, it produced devastation at the yards as a quarter of the order book in Helsinki and the whole order book in Turku was linked to the then Soviet market. "There is still turbulence in the restructuring process. One must not expect any short-term solutions which would lead to opportunities of new shipbuilding orders," he says.

Though the yards are now part of a Norwegian company, "we are very much one big family," says Mr Saarikangas. He sees their future in the construction of high quality merchant and passenger vessels as well as specialised boats such as ice-breakers, leaving the volume bulk ships to the low-cost parts of the industry in south-east Asia.

TRADE AND INVESTMENT

Warming the image of the country

AFTER YEARS of neglect and indifference Finland is promoting itself on international markets. Several organisations have been established recently to sell the image of the country abroad to potential buyers of Finnish products or investors.

An "Exclusively Finland" campaign was launched earlier this year in Britain to try to dispel popular ignorance about the country among the UK business community. A survey of executives carried out for the campaign last December found that as many as 59 per cent of respondents knew of no manufactured Finnish products at all while 79 per cent were unable to identify Finland's main industries and manufacturers. Yet Finland exports over £2.5bn worth of goods to the UK a year.

As Exclusively Finland concluded, the findings suggest that most executives thought that Finland was "cold and bleak, with an economy based almost entirely on small traditional cottage industries and forestry".

The myth of Finland as a Soviet satellite may have long been exposed but it could need a big promotional effort to alter misconceptions about the country's economy. As the campaign admitted: "In contrast to Sweden, very little is known about Finland, except for its cold climate, low population and forestry."

It intends to spend just under £2m over the next two years to try to change the false picture business has of the country. In co-ordination with the Finnish Foreign Trade Association in Helsinki and Finland Trade Centre in London, the campaign wants in particular to "raise the profile of Finnish companies and brands operating in the UK, raise the profile of Finnish industry and raise the profile of Finland itself".

The campaign aims to raise the profile of Finnish companies and brands operating in the UK

Eight Finnish companies have joined the campaign across the wide spectrum of the country's export products. These are Abloy Locks, the security firm which is part of the Metra group, Finlandia Vodka owned by Alko, the state-owned alcohol company, Finlux, which makes audio-visual equipment, Finnboard, the packaging company, Fiskars, the oldest industrial corporation in Finland that makes high quality scissors, kitchen utensils and garden tools and acquired in 1988 the Wilkinson Sword group of the UK; Kulta Beer brewed by the Hartwall Beverages company, Panda Liqorice and Saab Valmet, the top of the range Saab 9000 CS car maker.

At the same time there is an increasing interest in Finland in encouraging inward investment. In August the government introduced legislation expected to come into force from the beginning of 1993 which will lift most of the controls and rules that have inhibited foreign companies from moving production capacity and offices to Finland in the past.

The new laws will end the current division between restricted and free shares by making all shares free and therefore acquirable by foreigners without limitation. Finnish companies do not have to amend their own articles of association for this change to come into effect.

The reform will also enable the transfer of a Finnish company into foreign ownership without being subject to restriction. However, the transfer of the largest 100 Finnish companies with over 1,000 workers on their payroll and a turnover or year end assets totalling FM1bn or more into foreign hands will be monitored until 1996. The Ministry of Trade and Industry will have to approve if the buyer wants to acquire ownership or control of at least a third of the voting rights in the company.

The state will continue to have the right to intervene if it believes the acquisition by a foreign company of a large Finnish concern jeopardises the national interest. But the government has made it clear it would use its blocking powers against an individual deal "only in very extreme circumstances". After 1996 the monitoring system will end except for companies that manufacture defence equipment.

It is not just industrial companies that are to be covered by the new law. Banks and insurance companies will also be included. Moreover, real estate acquisition by non-residents of Finland will no longer be subject to government permission though a permit will still be needed where the transfer "is intended for leisure-time dwelling or for recreational purposes".

The reform will abolish restricted shares, allowing foreigners to acquire shares without limitation

Earlier in the year a new body called Invest in Finland was established at the Finnish Foreign Trade Association with the specific aim of supplying potential investors with detailed information on the country's business environment. Mr Erkki Karmila is the first head of the new bureau.

He believes Finland's geographical position can be of real advantage in attracting overseas investors as a "superb gateway" to Russia and the newly independent Baltic states with rapidly improving road and rail networks and telecommunication links

"We are going through our most fundamental change since independence on our way into an integrated western Europe," explains Mr Karmila. "This is a very good time for foreigners to invest here with the low value of company shares on the bourse." Several foreign companies – Asea Brown-Boveri, ICL and the Norwegian Kvaerner group – already operate in Finland. The Saab Valmet plant is the pride of Saab Auto AB for the high level of its shopfloor productivity.

But as Mr Karmila points out, before 1939 Finland's prosperity owed much to the involvement of foreign capital. The industrialisation of the country in paper, shipbuilding and engineering stemmed in part from British, French and German investment. In other words, the integration of Finland into the western economies over the next few years will bring the country back to what it was even before its independence in 1917 from Russia, part of a wider and open international trading system.

Bank governor and the government

Harmony restored

DR Sirkka Hämäläinen, the 53-year-old governor of the Bank of Finland since last April, has the toughest job in Finland at the moment. She – perhaps more than anybody else in the country – recognises the fragility of its economic position amid today's turbulent international money markets.

"No central bank alone can pursue a fixed exchange rate policy," she argues. Without the close support of the government, it lacks the authority to maintain its commitment no matter how independent the central bank may be in theory. The government and the central bank must work in harmony on the same policy objectives to have any hope of success.

Over the past 15 months, however, differences have emerged between the two institutions. Dr Hämäläinen's predecessor, Mr Rolf Kullberg, fought a rearguard action against the pressures that grew up in parts of industry and government in support of devaluation.

He failed to hold the line last November when the markka was devalued but his arguments lost none of their force early this year as it became clear that the devaluation had not ended the problem but indeed may have actually made it worse.

The public disagreement between Mr Aho and Mr Kullberg in April did much to undermine what little faith remained in the markets about Finland's economic strategy. Mr Kullberg's resignation suggested that the central bank could not withstand political pressures.

For her part, Dr Hämäläinen insists that "floating the markka is not a good solution". She says: "A fixed exchange rate is the best way to guarantee stable economic decision-making". The September 8 decision to float was the result of what she calls "a credibility problem". The markets refused to believe the Finnish government was serious about its intention to tackle its budget deficit. "The reason we floated the markka was because we did not see any changes coming in the factors that had brought about the lack of credibility," Dr Hämäläinen explains diplomatically.

She has in mind the absence of any national wage agreement between employers and trade unions for 1993 as well as government decisions to reduce their spending drastically. "Markets in today's uncertainties do not believe in words, they want to see deeds," she explains.

The central bank has come under some criticism for its decision to float without appearing to put up much of a struggle to maintain the markka's fixed exchange rate. But she asserts that it was clear from the onset that they would not be able to withstand the pressures from the market as Finland's capital reserves shrank alarmingly through July and August.

In her opinion Finns are not going back to days of poverty but to the more balanced economy that existed in the early 1980s before the huge growth in the public sector. "There must be structural cuts in spending," Dr Hämäläinen insists. But this does not mean Finland will have to destroy its welfare state to please the international markets.

Both the government and the central bank want to see the open industrial sector grow again to around 30 per cent of Finland's gross domestic product from its current level of 20 per cent. She also points out that it only needs a 2 per cent real cut in spending programmes combined with an annual growth rate of 2 per cent to ensure that Finland meets the criteria laid down by the European Community at Maastricht last November for membership of the European Monetary Union.

The floating of the markka displeased Brussels and it appeared to signal to the outside world that Finland was too ready to break out of even its own self-imposed constraints such as the linkage of the markka to the Ecu if it believed it was necessary to do so in its own national interest. Dr Hämäläinen argues that floating was "less aggressive" to the EC than a straight devaluation.

She believes that her country needs an external discipline to pursue tighter fiscal policies. It is hoped to return the markka to the Ecu basket as soon as possible when the markets have settled down.

Sirkka Hämäläinen, the Bank governor: "Floating is not a good solution"

But as the Paris-based Organisation for Economic Co-operation and Development argued in its annual survey on Finland at the end of August, the loss of credibility suffered as a result of the November devaluation "demonstrates the need for a consistent medium-term strategy designed, in particular, to introduce further discipline in fiscal policy and wage formation". Until this has been achieved, the markka may well have to go on floating. In the weeks ahead Dr Hämäläinen may not only have to keep her nerve but also adopt a stern and unbending attitude towards the government's budgetary strategy.

She is anxious to make clear that no division of opinion exists any longer between the central bank and the government on what needs to be done to restore international confidence in the Finnish currency. But it is going to need a consistent and perhaps even forceful reassertion by the governor of the dangers of any more half-hearted or toothless efforts to please the markets with limited cuts.

Not prone to the melodramatic, she is well aware of the gravity of Finland's position. The central bank's austere message appears to have got through to the politicians as well. As custodian of the country's vulnerable currency Dr Hämäläinen is in a strong position to put some backbone into the government in the coming weeks. If she fails, the prospects for Finland are grim.

Profile: NOKIA

Tribute from Major

NOKIA may not enjoy instant recognition in Britain but at least it is well-known in Mr John Major's Huntingdon constituency. Last spring Finland's giant telecommunications and electronics group established a strong foothold in the town when the UK prime minister opened its British headquarters there.

"The speed with which the company has established itself both internationally in the highly competitive and innovative telecommunications market but also as a growing and important presence in this part of the world is a great tribute to Nokia," Mr Major said then.

The company has seized the opportunities provided by the emergence of the UK's deregulated and liberalised telecommunications system with a five-fold increase in its telecommunications sales to the country in the past two years.

Last spring the Finnish company won an order to supply Windsor Cable Television's cable telecom division with Nokia DX 200 digital cross-connect systems to link its local service franchise to the national and international network. Similar equipment has been ordered more recently by Mid Downs Communications with the provision of 37,000 lines to cover Crawley, Horley and Gatwick airport.

Today the company is the world's second largest mobile phone manufacturer after Motorola. It also claims to be the third biggest European manufacturer of colour television sets while it is the continent's sixth largest maker of cable as well as a global leader in cable machinery production.

With 27,000 workers in 36 countries, Nokia has become a substantial European technology group. While its corporate headquarters remain in Helsinki, its consumer electronics division is run from Geneva.

Under Mr Jorma Ollila, the 41-year-old chief executive who became Nokia's president last January and chief executive officer only in June, the company looks set to thrive in its designated business areas – telecommunications, mobile telephones, consumer electronics, cables and machinery.

"The worst is over," he insists. "We won't make a profit this year but the result will be better than in 1991 when the company made a FM324m pre-tax loss."

A primary cause of last year's setback was the collapse of Nokia's telecommunications business with the Soviet Union. "From FM1.2bn sales in 1990 it fell to zero in 1991," he explains. "But over the past 10 months we have filled the gap through acquisition of orders for our GSM and PCN systems in Germany."

An important advance was achieved by the company in June when it announced it was forming a joint venture at Fort Worth in Texas for the production of mobile telephones in collaboration with a subsidiary of the Tandy corporation.

The newly formed TNC company is scheduled to start production of high volumes of cellular phones early next year for the US market. Last year North America accounted for around half the cellular phones sold worldwide.

Mr Ollila says: "Two reasons have necessitated our US presence, the weakness of the US dollar and the need to be closer to a market with a 30 per cent annual volume growth."

He is well equipped to develop the company's telecommunications and mobile phone activities. In just two years – 1990 and 1991 – he turned the mobile phones division from loss to profit through cost-cutting and rationalisation which meant reducing the workforce and doubling production volume. "I brought research and development, manufacturing and the marketing work much closer together and reduced the cycle time." Mr Ollila's managerial performance impressed Nokia's board and paved the way for his meteoric rise to the top.

The company solved the problem of its loss-making data division, bought from Ericsson, by selling it in 1991 to ICL for £230m. It also partially divested itself from chemicals by merging them with the Finnish company Kymmene in a 50-50 partnership.

Consumer electronics remains a headache. Production of colour TV sets has been concentrated in the company's two plants at Turku in Finland and Bochum in Germany.

The cables business is also suffering from a fall in European capital investment and overcapacity in the industry. Nokia has carried out cost-cutting and has benefited from orders for power and telephone cables, with a 24 per cent increase in the order book in the first four months.

"We are not a conglomerate any more but a focused technology group," says Mr Ollila. The company appears to have a promising future in the telecommunications industry.

In 1987, Nokia made a splash by hiring all the billboards in Sweden. The company can hardly do the same in Britain. But across much of western Europe it looks like one of Finland's corporate flagships, signalling the arrival of the country's industry in the wider continental markets.

How the Finns relax

Taking the sauna way of life

FINLAND IS the homeland of the sauna. To most Finns it is neither a luxury nor a status symbol but very much a way of life. There are an estimated 1.5m saunas in a country with a population of only 5m. Indeed, no city apartment seems to be complete without one. Most Finns take one to two saunas a week.

The sauna is traditionally made up of a hot room, washroom and a dressing room, and its walls are constructed mainly out of either pine or spruce with concrete floors. The stove or open fireplace of stones lies at the centre of the sauna, heated by electricity in urban areas and by wood in the countryside.

The technique of the sauna involves throwing the heated water onto the stones to intensify the humidity. The air temperature around your head needs to be 80-100 centigrade and ventilation should be regulated at 60kg an hour.

The sauna is nothing like a shower. The more time you spend in it, the more relaxed you become as you sit naked on a small towel on wooden planks and absorb the heat through your pores, hitting yourself from time to time with bundles of birch leaves to intensify the sweating. Coming out, you should take a cold swim and then drink some fresh juice or beer. Up in Lapland in the winter, a sauna is generally followed by a run into the snow.

The sauna is not merely a washing place for Finns but also somewhere to create a sense of well-being and relaxation. It has been recommended as a useful antidote to modern stress, although many Finnish businessman tend to carry their work troubles into the sauna where they can discuss them together with their male colleagues, away from eavesdroppers.

There are plenty of don'ts about taking a sauna. Warnings are given that there should not be a competition to see who can stand the highest temperature. Big meals and alcohol need to be avoided beforehand. People with high blood pressure or heart complaints should avoid swimming in cold water after their sauna.

The Finns are annoyed at the way in which the sauna, like the massage parlour, has degenerated abroad into a kind of sexual experience. Traditionally, it has served in rural areas as not just a health centre for all the family but also as a maternity clinic. There are no signs that the sauna is in decay. On the contrary, it remains an important daily event for most Finns.

Problems of the banks

Taxpayer faces bill

THE FINNISH banking system continues to face severe problems as it wrestles with huge credit losses. Last year they amounted to 1.6 per cent of total loans compared with only 0.5 per cent in 1990. The banks suffered a total operating deficit of around FM5bn in 1991 and credit losses soared to FM7.6bn while non-performing loans totalled FM40bn.

Earlier this year, there was a serious danger of a weakening in the capital adequacy of the banks with a resulting restriction in the supply of credit available to customers which would have deepened the recession. From 1993, all banks involved in international operations must maintain an 8 per cent capital ratio.

Many of the troubles facing Finland's banks were due to their own mistakes. The picture is similar to that of the other Nordic regions with over-extended use of credit at excessively low rates of interest and inadequate collateral, a lax system of checking customer creditworthiness, risky investments in real estate and a wasteful use of resources.

But the position was made worse by the last government's loose fiscal policy at the end of the 1980s and the reckless atmosphere caused by sudden financial deregulation. Finnish companies and households were swept up in a free-wheeling spree.

The severity of the bank crisis has forced the Finnish public authorities to intervene increasingly since the central bank rode to the rescue of Skopbank, the country's fourth largest commercial bank in September 1991. It was helped through a FM2bn capital injection and a radical restructuring of the bank that involved creation of three separate holding companies to cover industry, shareholdings and real estate. Outstanding loans valued at FM2bn were written off.

In March this year an attempt was made by the government to try to restore confidence in the financial system as a whole. This involved both a plan for government investments totalling FM8bn in certificates issued by the banks and the creation of a government bank guarantee fund on Norwegian lines with maximum liabilities totalling FM20bn.

At the same time the government has been actively encouraging a substantial consolidation of Finland's banking sector through mergers and amalgamations. Forty-one of the country's regional savings banks were brought together in one organisation to be called the Savings Bank of Finland. The future of Skopbank is under discussion at the moment between the government guarantee fund and the leading commercial banks, most notably the Union Bank of Finland.

Ministers remain concerned about the further demands that are likely to be made on the state by the ailing financial sector in the months ahead which could add substantially to the budget deficit. The government has made it clear that it will underpin the system. No bank is going to collapse. But the total cost to the taxpayer of saving the financial sector from the follies of the late 1980s remains uncertain.

The government has encouraged banking sector consolidation through mergers and amalgamations

Clearly, this vague further demand on budget resources will add to the government's debt burden and make it even harder and more painful to make the cuts designed to calm the uneasy markets.

"Additional resources will be needed," admits Dr Sirkka Hamalainen, the central bank governor. Mr Aho, the prime minister, also emphasises the troubles of Finland's banking sector along with the cost of unemployment and falling tax revenues to explain Finland's budget deficit.

It will take a long time for Kansallis-Osake-Pankki, Finland's largest commercial bank, to recover from its financial troubles. Last month KOP had to accept a FM1.73bn capital injection from the government to strengthen its capital base and improve its capital requirement ratio by 1.5 per cent to 8.8 per cent.

"The bank's troubles are much worse than I expected when I arrived here," admits Mr Pertti Voutilainen, KOP's chief executive officer since last February. Since he took over, Mr Voutilainen has halved the size of the executive board and pushed through a 10 per cent cut in the number of staff employed which will be completed this year.

Above all, he has launched a strategy designed to focus KOP's activities on basic banking services through a relocation of its resources. There is less concentration now on real estate management and the equity portfolio. KOP has decided to concentrate its international activities on customers directly involved with Scandinavia. "We are going to do what we can do best," explains Mr Voutilainen.

But the troubles at KOP are deep-seated and they look like persisting for the time being.

The Union Bank of Finland, the country's other leading commercial bank, also has problems. In August it issued a maximum FM950m convertible bond loan to strengthen its capital base by improving its lending ability to the tune of FM10bn. With a capital adequacy of 10.7 per cent and a 7.4 per cent for its tier one capital, the bank has a strong position by international standards.

But, like others, it has gone through substantial restructuring. This month the group's new organisation came into force when Unitas became a holding company with subsidiaries for commercial banking and strategic holdings.

In June it moved its investment banking operations to a separate company, called Mandatum. All Union Bank's merchant banking activities were transferred to the company, which does not form part of the Unitas Group but became a partnership. "This reorganisation will re-enforce the Chinese walls between commercial and merchant banking operations," says Mr Vesa Vainio, Union Bank president.

Last year the bank suffered an operating deficit before extraordinary items, appropriations and taxes of FM128m compared with a FM480m profit in 1990 and this year the loss will be higher. The bank expects a further loss in 1993.

NUCLEAR ENERGY

Fifth reactor planned

A GOVERNMENT decision is imminent on whether Finland is going to have a fifth 1000MW nuclear power station to meet its future energy needs.

Most of the signs suggest that the politicians will bow to the demands of the country's main energy intensive export industries, most notably forestry, and recommend the go-ahead. A final decision will rest with parliament, but Finland's anti-nuclear movement may find it difficult in present circumstances to mount an effective campaign against a proposal to build a fifth reactor.

The power companies submitted an application for a decision in principle for a new nuclear facility in May 1991 and it has led to some serious divisions inside the cabinet of the centre-right government. If the green light is given, the new nuclear station could begin production by the end of the century.

An added complication to the energy debate in Finland is the on-and-off discussion over the proposed pipeline to bring natural gas from the Norway's Haltenbanken field in the North Sea, with its known 300bn cubic metres of reserves, across Sweden and under the Gulf of Bothnia to Finland. The pipeline, which could be built by the Neste company by 1998, is seen by some observers as an alternative to a fifth nuclear power plant but this looks unlikely. For its part, Neste says it is complementary to the nuclear decision.

For Finland's export industries the crucial factor in energy supply is price. At present, they enjoy some of the cheapest industrial energy prices in the world, due largely to the nuclear power component. If they became more dependent on imported coal or natural gas – neither of which exists in Finland – their energy costs would rise.

There is also talk of using biomass – organic waste products – as an alternative fuel source. But few observers believe that this technology could compete commercially with nuclear energy. Finland may have abundant supplies of wood chips, bark and waste-wood to burn, currently producing about 15 to 16 per cent of total energy needs. But this appears to be the commercial limit for this form of fuel, particularly if an upturn in the forestry industry increased demand for wood.

IVO: the five year record (in Finnish marks)

	1987	1988	1989	1990	1991
Turnover	4.329bn	4.376bn	4.742bn	5.389bn	5.743bn
Profit*	528m	420m	488m	532m	230m
Return on investment (%)	12.1	8.6	8.5	8.8	7.4

*Before extraordinary items

Imatran Voima (IVO), the Finnish power generating company, makes no secret of its own preference. It wants parliament to approve the fifth nuclear reactor. Indeed, IVO has already drawn up a short list of six different choices of reactor. The company has no wish to delay making its choice once it has the opportunity to push ahead. It runs already the two Soviet built 445MW pressurised water reactors at Loviisa which were established in May 1977 and January 1981.

IVO is a state-owned company which is Finland's largest supplier and seller of wholesale electricity. It is also the country's leading producer of electricity as well as being the second largest producer of district heat.

Last year its power generation totalled 12.313bn GWh, with just over half that coming from nuclear power followed by coal, peat, hydropower, natural gas, oil and industrial waste and 0.16 GWh from wind power.

The company does not confine its business activities to Finland. It runs an international subsidiary which was responsible for an estimated 660 projects and assignments in 24 countries last year. IVO is involved in a number of operations in the Sudan, Uganda and Tanzania as well as Abu Dhabi and Nepal. It has recently constructed a factory to manufacture district heating pipes in St Petersburg.

Earlier this year, IVO teamed up with Jaakko Poyry Oy, the Finnish forestry consulting and engineering company, in the creation of an organisation called the Energy Consultation Group with the objective of improving energy efficiency in areas of Russia neighbouring the Finnish border.

The two companies, which together employ 3,000 engineers familiar with the Russian energy sector, are in a good position to provide the necessary know-how for a substantial improvement in heating and energy conservation projects in Russia. The trouble, however, is the financing of such schemes and private companies are looking to the Finnish government to back what they want to do.

There is little doubting the concern among ministers about the safety of Russia's nuclear power stations close to Finland's eastern border. Earlier this year, the government earmarked FM6.4m for co-operation with Russia on nuclear safety on the Kola peninsula, where there are four 440MW light-water reactors of the VVER type, and at the Sosnovy Bor power station in St Petersburg which includes 1,000MW graphite-moderated reactors of the RBMK type, similar to the one at Chernobyl.

SHIPBUILDING

Kvaerner to the rescue

MANY FINNS regard Mr Martin Saarikangas as the saviour of their country's shipbuilding industry. President and chief executive officer of Kvaerner Masa-Yards, he is a larger than life character with a lifetime in making ships. When Wartsila Marine went bankrupt in October 1989, this huge man came to the rescue.

After working at the yards for nearly 30 years, he had a strong disagreement with the old Wartsila management in 1985 over its future strategy. He lost the argument and went into virtual exile in the US, only to return when the company fell into severe financial trouble.

At that time the company yards were run with the co-operation of the original shareholders, including the Finnish government, the Union Bank of Finland and a number of shipping companies which had placed orders with Wartsila before it went bankrupt.

This could never have been more than a temporary solution. Mr Saarikangas and others searched for a new, more permanent owner who would keep the yards in Helsinki and Turku open. "We needed a strong shareholder. We could not exist alone," he argues. A "Finnish solution" was found to be impossible but in autumn 1990 the Norwegian industrial company Kvaerner came to the rescue with NKr700m, becoming owner on March 22 last year.

Some Finns questioned whether the fate of a large part of their country's shipbuilding industry should depend on the attitude of a foreign concern such as Kvaerner but their doubts appear to have been misplaced. In fact, the Norwegian company has an interest in practically every segment of shipping and there are obvious synergies to the benefit of the Masa yards.

As Mr Saarikangas explained in last year's annual report: "Our strength today within passenger shipbuilding and the Arctic segment will also diversify into the field of oil and gas exploration and bring new orders to our yards in Finland thus improving our competitiveness and labour situation."

In the last financial year the yards made a profit (after financial items) of FM270.9m and achieved total net sales of FM1.910bn but this year the performance is not expected to be as good.

The change of ownership at the yards has brought with it a clear change in business attitudes. Mr Saarikangas has sought to transform shopfloor attitudes with the introduction of teams into workplace organisation and a considerable cut in overhead costs. The company has pushed through a multi-million markka programme of retraining that was completed this summer.

He is very critical of the way in which the yards were managed during the 1980s. "Many important basic values were forgotten," he argues. In his opinion there had to be a return to "basics, such as appreciation of work, high quality, honesty and reliability." But this has not meant a return to a macho style of management. Mr Saarikangas is keen to stress the need for involvement in ship production at all levels of the workforce. "We need good human relations and a strong belief in our own skills," he argues.

The transformation in the yards has begun but he accepts it will take time, patience and a constant emphasis on efficiency before the company can reach a position where it can survive.

The immediate outlook remains uncertain as long as the recession continues in Europe and the US. This has inevitably brought postponement of new projects and few new orders in shipping. But Mr Saarikangas says that the mid-1990s will be "a good time" for the industry and for the company.

At present the yards have an order book valued at FM6.5bn. There are enough orders to ensure the Helsinki yard is kept fully employed until the second half of 1995 but at Turku, where the yard is one of the largest and most modern in Europe, the outlook is uncertain with the last order due for completion by the third quarter of next year.

But a question mark hangs over the prospects of any revival in the traditional export orders from the Finnish yards to Russia which collapsed two years ago with the end of the old clearing house trade system.

At that time, it produced devastation at the yards as a quarter of the order book in Helsinki and the whole order book in Turku was linked to the then Soviet market. "There is still turbulence in the restructuring process. One must not expect any short-term solutions which would lead to opportunities of new shipbuilding orders," he says.

Though the yards are now part of a Norwegian company, "we are very much one big family," says Mr Saarikangas. He sees their future in the construction of high quality merchant and passenger vessels as well as specialised boats such as ice-breakers, leaving the volume bulk ships to the low-cost parts of the industry in south-east Asia.